

PALMETTO UTILITIES, INC.
ELGIN, SOUTH CAROLINA

OPINION ON THE PROBABLE VALUE OF
CUSTOMER CONTRIBUTION IN AID OF CONSTRUCTION RELATED TO
THE ACQUISITION OF SOME WASTEWATER ASSETS OWNED AND
OPERATED BY THE CITY OF COLUMBIA, SOUTH CAROLINA

AUGUST 2018

Prepared by:
GANNETT FLEMING
VALUATION AND RATE CONSULTANTS, LLC



Valley Forge, Pennsylvania



*Excellence Delivered **As Promised***

August 5, 2018

Mr. Mark S. Daday
Senior Vice President & Chief Financial Officer
Palmetto Utilities, Inc.
1710 Woodcreek Farms Road
Elgin, South Carolina, 29045

Dear Mr. Daday:

Opinion on the Probable Value of Customer Contributions in Aid of Construction

In accordance with your request, we have prepared an opinion on the probable value of the customer contribution in aid of construction ("CIAC") related to Palmetto of Richland County, LLC's acquisition of some wastewater assets owned and operated by the City of Columbia, South Carolina ("City").

Based on our analysis, as described in the attached report, I can state with complete certainty the value of the CIAC related to Palmetto of Richland County, LLC's 2013 acquisition of some wastewater assets owned and operated by the City was \$0 (zero) and should be carried on the books of Palmetto Utilities, Inc. at \$0 (zero).

The attached report presents our findings, conclusions and summarizes facts found in the array of documentation we reviewed.

We thank Palmetto Utilities, Inc. for this opportunity to provide our services in connection with the probable value of the CIAC of the acquired wastewater assets that were owned and operated by the City.

Respectfully submitted,

GANNETT FLEMING VALUATION
AND RATE CONSULTANTS, LLC

A handwritten signature in black ink, appearing to read "Harold Walker, III".

HAROLD WALKER, III
Manager, Financial Studies

HW:mle

Gannett Fleming Valuation and Rate Consultants, LLC

P.O. Box 67100 • Harrisburg, PA 17106-7100 | 207 Senate Avenue • Camp Hill, PA 17011-2316

t: 717.763.7211 • f: 717.763.4590

www.gfvrc.com

Table of Contents

1	INTRODUCTION	1
2	BACKGROUND	1
3	SOURCES OF INFORMATION	2
4	OVERVIEW OF USOA FOR WASTEWATER UTILITIES	2
5	OVERVIEW OF THE APA	4
6	THE EXPANSION FEE AND METRO WWTP	5
7	ANALYSES AND FINDINGS	7
8	GANNETT FLEMING’S EXPERIENCE.....	8

TERMS, ABBREVIATIONS AND ACRONYMS

Terms, Abbreviations and Acronyms	Defined
CIAC	Customer contribution in aid of construction
City	City of Columbia, South Carolina
City System	Sewer collection system serving 11,182 ERCs located in Richland County, South Carolina
Collection System	Sewer collection system serving 11,182 ERCs located in Richland County, South Carolina
Company	Palmetto Utilities, Inc.
ERC	Equivalent Residential Customer
Expansion Fee	Fee charged new wastewater customers
Gannett Fleming	Gannett Fleming Valuation and Rate Consultants, LLC
Metro WWTP	Metro Wastewater Treatment Plant
MGD	Million gallons per day
NARUC	National Association of Regulatory Utility Commissioners
PRC	Palmetto of Richland County, LLC
PUI	Palmetto Utilities, Inc.
Spears Creek WWTP	Spears Creek Wastewater Treatment Plant
USOA	Uniform System of Accounts for Class A Wastewater Utilities
WWTP	Wastewater Treatment Plant

1 INTRODUCTION

Palmetto Utilities, Inc. (“PUI” or the “Company”) engaged Gannett Fleming Valuation and Rate Consultants, LLC to provide an opinion on the probable value of the customer contribution in aid of construction related to the acquisition of some wastewater assets owned and operated by the City of Columbia, South Carolina (“City”). This report describes our analyses and present our findings.

This report incorporates Attachment HW-1 and Attachment HW-2. Attachment HW-1 is a summary of my qualifications. Attachment HW-2 is composed of 3 Exhibits and presents documentation for our analyses. When the report refers to an Exhibit, it is referring to the Exhibits contained in Attachment HW-2 unless otherwise noted.

2 BACKGROUND

In 2012, the Palmetto of Richland County, LLC (“PRC”) and the City entered into an asset purchase agreement (“APA”) as part of the sale of the of the City’s sewer collection system serving 11,182 equivalent residential customers (“ERC”) located in an unincorporated area of Richland County (“Collection System” or the “City System”).¹ The purchase of the Collection System was approved by the Public Service Commission of South Carolina in 2012. Prior to the sale of the Collection System, the City was charging their new wastewater customers an expansion fee (“Expansion Fee”).

¹ In 2017, PRC merged with PUI, with PUI being the surviving entity.

Post-acquisition of the Collection System, the Company has been asked about their accounting of the Collection System's customer contribution in aid of construction ("CIAC") related to the Expansion Fees collected under City ownership.

3 SOURCES OF INFORMATION

In order to provide an opinion on the probable value of the CIAC related to the acquisition we reviewed the following sources of information during this assignment:

The 2012 asset purchase agreement between the Palmetto of Richland County, LLC and the City of Columbia, South Carolina;

The National Association of Regulatory Utility Commissioners Uniform System of Accounts for Class A Wastewater Utilities (1996);

City of Columbia, South Carolina, Financial Statements, 1998, 2000 and 2004 – 2014;

City of Columbia, South Carolina, Official Statements issued in connection with bond offerings in 1999, 2001, 2005, 2009, 2011 and 2013;

City of Columbia, South Carolina, Ordinances;

Public Service Commission of South Carolina Orders in Docket No. 2012-273-S - Order No. 2012-960 (December 21, 2012) and Docket No. 2017-228-S – Order No. 2018-155 (March 7, 2018); and

Baldwin, Vicki M. and Malko, J. Robert, "Used and Useful Principle: Still Relevant in Utah" (2012). Economics and Finance Faculty Publications. Paper 749.

4 OVERVIEW OF USOA FOR WASTEWATER UTILITIES

The National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts for Class A Wastewater Utilities ("USOA") provides accounting instructions for the recording and treatment of CIAC of acquired wastewater plant. Specifically, instruction

number 21, *Utility Plant - Purchased or Sold*, states the accounting for the acquisition shall then be completed as follows:

(4) The **amount of contributions in aid of construction applicable to the property acquired**, and which the purchaser may be required to record, shall be charged to account 104 - Utility Plant Purchased or Sold, and concurrently credited to account 271 - Contributions in Aid of Construction.

(5) The amount of accumulated amortization **applicable to contributed property**, and which the purchaser may be required to record, shall be credited to account 104 - Utility Plant Purchased or Sold and concurrently debited to account 272 - Accumulated Amortization of Contributions in Aid of Construction, according to the regulatory treatment of the Commission. (Bolding added)

The USOA's instructions for balance sheet account 271, *Contributions in Aid of Construction*, states the account shall include:

1. Any amount or item of money, services or **property received by a utility**, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and **which is utilized to offset the acquisition, improvement or construction costs of the utility's property**, facilities, or equipment **used to provide utility services to the public**. (Bolding added)

The USOA's instructions for balance sheet account 272, *Accumulated Amortization of Contributions in Aid of Construction*, states this account shall reflect the amortization accumulated on account 271 - Contributions in Aid of Construction, if recognized by the Commission, and states:

B. Specifically, balances in account 271 which **represent contributions of depreciable plant shall be amortized** by charges to this account over a period equal to the estimated service life of the related contributed asset.

A group or overall composite rate may be used for contributed balances that cannot be directly related to a plant asset. (Bolding added)

5 OVERVIEW OF THE APA

The June 6, 2012 APA, attached as Exhibit 1, states conditions and terms for the purchase of the Collection System. The APA's recitals include:

WHEREAS, without limiting the generality of the foregoing, pursuant to the terms of this Agreement, the Parties desire that, Seller transfer to Buyer (i) the **Assets**, (ii) the **retail wastewater utility** service rights to the Purchased Area and (iii) the ownership of certain property, facilities, lines, meters, equipment and easements with respect to the Purchased Area; and

WHEREAS, the sanitary **sewer collector system** of the Seller servicing the Purchased Area is herein referred to as the "**City System.**" (Bolding added)

Some of the more important terms and conditions of the APA that impact our analyses and findings are:

"Assets" shall mean all right, title, and interest in and to all the **assets owned by Seller and utilized exclusively in the operation by the Seller of the City System**, except for the Excluded Assets, including all: (a) fee property, real property, leaseholds and subleases, improvements, fixtures, easements, rights-of-way and other appurtenances thereto used exclusively in City System (the "Real Property"), including, without limitations, the real property described on Schedule 3.1(f); (b) tangible personal property (including, without limitation, all machinery and equipment, used exclusively in the City System and those items identified on Schedule 3.1(k)); (c) Included contracts; (d) property of any type relating exclusively to the operation of the City System, (e) books, ledgers, files, documents,

correspondence, lists, maps, drawings, plans, specifications, warranties and plats related exclusively to the City System, and (f) Post Signing Connection Fees.

“Excluded Assets” shall mean cash held by Seller, accounts receivable of Seller, any Contracts other than Included Contracts, or any asset related to any employee or Seller Plan or other employee benefit plan of Seller. For purposes of clarity, **the parties agree that any asset of Seller that is not exclusively related to the operation of the City System will constitute an Excluded Asset.**

2.4 No Assumption of Liability. From and after the Closing Date, Buyer will assume and discharge all obligations of Seller which accrue and are due and performable subsequent to the Closing Date under the Included Contracts to be assigned to Buyer (the “Assumed liabilities”); provided that (x) the rights thereunder have been duly and effectively assigned to Buyer and (y) Buyer shall not assume any liability arising from or related to any breach of any Included Contracts by Seller prior to the Closing Date or with respect to any Contract of Seller other than an Included Contract. Other than the Assumed Liabilities, **Buyer does not assume any direct or indirect duties, liabilities or obligations of Seller of any kind or nature, fixed or unfixed, known or unknown, accrued, contingent or otherwise and it is understood that all such liabilities are retained by Seller, and Seller shall be responsible for the payment and discharge of all such liabilities,** including any liability arising from or related to any breach of any Included Contracts by Seller prior to the Closing Date (such liabilities herein being defined as the “Excluded liabilities”). Without limiting the generality of the foregoing, any liability related to any Excluded Asset shall constitute an Excluded Liability for all purposes of this Agreement. (Bolding added)

6 THE EXPANSION FEE AND METRO WWTP

The City began charging the Expansion Fee to new wastewater customers in 1987. The purpose of the Expansion Fee was to enable City’s wastewater utility to acquire capital funds with

which to expand or increase the size and volume of its existing wastewater treatment plant. The word “expansion” means “the quality or state of being expanded” while the word “expand” means “to increase the extent, number, volume, or scope of.”² According to City documents, the Expansion Fee was intended to provide an additional source of moneys for upgrading and expansion of the City's Metro Wastewater Treatment Plant ("Metro WWTP").³

At the time of the sale, the Collection System's wastewater flows were treated at the Metro WWTP. Post-sale, the City agreed it would continue treating wastewater for the Collection System at its Metro WWTP until the date the PUI can construct necessary infrastructure allowing connection to its own treatment plant (“Spears Creek WWTP”).⁴

The Metro WWTP was built in 1970, expanded in 1982 to 40 million gallons per day (“MGD”) and expanded in 1998 to 60 MGD. As of 2011 the City expected that the Metro WWTP, as expanded and upgraded, would be adequately sized to provide wastewater treatment through the year 2015.⁵ By 2013 the City anticipated that the Metro WWTP, as expanded and upgraded, would be adequately sized to provide wastewater treatment through the year 2060 because of the Collection System's wastewater being treated at the Spear Creek WWTP.⁶

² Merriam-Webster, <https://www.merriam-webster.com/dictionary/expansion> and <https://www.merriam-webster.com/dictionary/expand>, (8/3/18).

³ For example, see page 3 of Exhibit 2 for original page 22 of the City's Official Statement dated December 5, 2013 issued for the offering of \$75,305,000 *City of Columbia, South Carolina, Waterworks and Sewer System Revenue Bonds Series 2013*. Similar statements appear in the City's Official Statements issued relating to bond offerings in 1999, 2001, 2005, 2009 and 2011.

⁴ *Ibid.*, 19. See page 2 of Exhibit 2 for original page 19.

⁵ See pages 2 and 3 of Exhibit 3 for original pages 18 and 19 of the City's Official Statement dated November 9, 2011 issued for the offering of \$100,000,000 *City of Columbia, South Carolina, Waterworks and Sewer System Revenue Bonds Series 2011A* and \$27,265,000 *City of Columbia, South Carolina Waterworks and Sewer System Refunding Revenue Bonds Series 2011B*.

⁶ City's Official Statement dated December 5, 2013, page 19. See page 2 of Exhibit 2 for original page 19.

7 ANALYSES AND FINDINGS

As a result of the acquisition of the Collection System, the PRC acquired specific identified Collection System assets while the City retained all other assets, all liabilities and all equity. Therefore, all CIAC was retained by the City. Further, the assets acquired by PRC were “retail” assets or “sewer collector system” assets. Therefore, all wastewater treatment assets were retained by the City.

The Expansion Fee that was collected from Collection System customers provided capital for the financing of the expansions and upgrades of the City’s Metro WWTP. Post-sale of the Collection System, the Metro WWTP was retained by the City. Therefore, according to the USOA, the Expansion Fee related CIAC was retained by the City.

There is a regulatory principle used by regulators to evaluate the justification for a utility’s particular investment, used for cost of service regulation known as “used and useful.” The principle involves evaluating whether equipment or plant is being utilized to provide service, and whether equipment or plant is contributing to the provision of the service. The Public Service Commission of South Carolina summarized the principle of “used and useful” as follows:

Further, where wastewater disposal facilities installed by a utility are used and useful in providing service, they are allowable in plant for ratemaking purposes. See *Heater of Seabrook, Inc. v. Public Service Commission*, 332 S.C. 20, 24, 503 S.E.2d 739, 741, n.2 (1998), citing *Hamm*, supra, 309 S.C. at 285, 422 S.E.2d at 112 (1992) (public utility plant is “used and useful” where it is “necessarily devote[d] to rendering the regulated service”).⁷

⁷⁷ Docket No. 2017-228-S – Order No. 2018-155 (March 7, 2018) at page 17.

Post-sale of the Collection System, the City's Metro WWTP temporarily treated the wastewater collected by the Collection System. Currently, the Collection System's wastewater is treated by the Company's Spear Creek WWTP. Therefore, according to the regulatory principle of "used and useful," the resultant economic obsolescence attributable to the Collection System's Expansion Fee related CIAC would result in this CIAC having no current value regardless of ownership.

On the date of the sale of the Collection System the Expansion Fee related CIAC would have had an economic remaining life which terminated on the date the Collection System's wastewater began being treated by the Company's Spear Creek WWTP. As stated, on the date of the sale, the Expansion Fee related CIAC, with minimal remaining life, was retained by the City.

Based on the aforesaid, legally the Expansion Fee related CIAC had no value to PRC at the purchase date or currently as PRC has never had title or ownership of the underlying treatment assets. Economically, the Expansion Fee related CIAC had no value to PRC at the purchase date or currently since PRC has never had use of the underlying capital. From a regulator's perspective, the Expansion Fee related CIAC has no value to PRC currently due to the "used and useful" principal.

8 GANNETT FLEMING'S EXPERIENCE

Since 1915, Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming") and its predecessors have been helping clients in public pricing policy and related financial matters for managerial purposes, before regulatory commissions and in courts of law. Our staff has considerable experience in providing an array of specialized financial services to support the core needs and objectives of our clients.

Our specialized financial services encompass utility valuations, economic valuation studies, cost of capital studies, depreciation studies, rate studies, lead lag studies, analyses of public utility accounting systems, debt financing reports, economic and demographic studies, financial decision studies, optimum capital structure, debt service levels, dividend policy, private placement of debt, financial benchmarking, and conducting property inventories.

Our studies require objective analyses of basic data, informed professional judgment, and clear presentation of the results. Our staff includes professionals specialized in public utility accounting and ratemaking, valuation, cost of capital, lead lag, depreciation, associated technical services, and financial analysis. We are experienced utility valuation experts and we are a registered Municipal Advisor with the Securities & Exchange Commission (SEC); and are a subsidiary of Gannett Fleming, Inc.

Gannett Fleming, Inc., is an American-based engineering firm specializing in international planning, design, and construction management. The company has been providing full-service, multidisciplinary engineering services, first in the U.S. with its founding on August 1, 1915 as "Farley Gannett, Consulting Engineer", and eventually abroad. Gannett Fleming, Inc. currently employs 1,900 people in over 50 offices throughout the United States and Canada as well as representation in 51 countries.

Attachment HW-1

Professional Qualifications
of
Harold Walker, III
Manager, Financial Studies
Gannett Fleming Valuation and Rate Consultants, LLC.

EDUCATION

Mr. Walker graduated from Pennsylvania State University in 1984 with a Bachelor of Science Degree in Finance. His studies concentrated on securities analysis and portfolio management with an emphasis on economics and quantitative business analysis. He has also completed the regulation and the rate-making process courses presented by the College of Business Administration and Economics Center for Public Utilities at New Mexico State University. Additionally, he has attended programs presented by The Institute of Chartered Financial Analysts (CFA).

Mr. Walker was awarded the professional designation "Certified Rate of Return Analyst" (CRRA) by the Society of Utility and Regulatory Financial Analysts. This designation is based upon education, experience and the successful completion of a comprehensive examination. He is also a member of the Society of Utility and Regulatory Financial Analysts (SURFA) and has attended numerous financial forums sponsored by the Society. The SURFA forums are recognized by the Association for Investment Management and Research (AIMR) and the National Association of State Boards of Accountancy for continuing education credits.

Mr. Walker is also a licensed Municipal Advisor Representative (Series 50) by Municipal Securities Rulemaking Board (MSRB) and Financial Industry Regulatory Authority (FINRA).

BUSINESS EXPERIENCE

Prior to joining Gannett Fleming Valuation and Rate Consultants, LLC., Mr. Walker was employed by AUS Consultants - Utility Services. He held various positions during his eleven years with AUS, concluding his employment there as a Vice President. His duties included providing and supervising financial and economic studies on behalf of investor owned and municipally owned water, waste water, electric, natural gas distribution and transmission, oil pipeline and telephone utilities as well as resource recovery companies.

Attachment HW-1

In 1996, Mr. Walker joined Gannett Fleming Valuation and Rate Consultants, LLC. In his capacity as Manager, Financial Studies and for the past twenty years, he has continuously studied rates of return requirements for regulated firms. In this regard, he supervised the preparation of rate of return studies in connection with his testimony and in the past, for other individuals. He also assisted and/or developed dividend policy studies, nuclear prudence studies, calculated fixed charge rates for avoided costs involving cogeneration projects, financial decision studies for capital budgeting purposes and developed financial models for determining future capital requirements and the effect of those requirements on investors and ratepayers, valued utility property and common stock for acquisition and divestiture, and assisted in the private placement of fixed capital securities for public utilities.

Head, Gannett Fleming GASB 34 Task Force responsible for developing Governmental Accounting Standards Board (GASB) 34 services, and educating Gannett Fleming personnel and Gannett Fleming clients on GASB 34 and how it may affect them. The GASB 34 related services include inventory of assets, valuation of assets, salvage estimation, annual depreciation rate determination, estimation of depreciation reserve, asset service life determination, asset condition assessment, condition assessment documentation, maintenance estimate for asset preservation, establishment of condition level index, geographic information system (GIS) and data management services, management discussion and analysis (MD&A) reporting, required supplemental information (RSI) reporting, auditor interface, and GASB 34 compliance review.

Mr. Walker was also the Publisher of C.A. Turner Utility Reports from 1988 to 1996. C.A. Turner Utility Reports is a financial publication which provides financial data and related ratios and forecasts covering the utility industry. From 1993 to 1994, he became a contributing author for the Fortnightly, a utility trade journal. His column was the Financial News column and focused mainly on the natural gas industry.

In 2004, Mr. Walker was elected to serve on the Board of Directors of SURFA. Previously, he served as an ex-officio directors as an advisor to SURFA's existing President. In 2000, Mr. Walker was elected President of SURFA for the 2001-2002 term. Prior to that, he was elected to serve on the Board of Directors of SURFA during the period 1997-1998 and 1999-2000. Currently, he also serves on the Pennsylvania Municipal Authorities Association, Electric Deregulation Committee.

EXPERT TESTIMONY

Mr. Walker has submitted testimony or been deposed on various topics before regulatory commissions and courts in 21 states including: Arizona, California, Colorado, Connecticut, Delaware, Illinois, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, New Jersey, New York, North Carolina, Oklahoma, Pennsylvania, Vermont, Virginia, and West Virginia. His testimonies covered various subjects including: fair market value, the taking of natural resources, appropriate capital structure and fixed capital cost rates, depreciation, fair rate of return, purchased water adjustments, synchronization of interest charges for income tax purposes, valuation, cash working capital, lead-lag studies, financial analyses of investment alternatives, and fair value. The following tabulation provides a listing of the electric power, natural gas distribution, telephone, wastewater, and water service utility cases in which he has been

Attachment HW-1

involved as a witness. Additionally, he has been involved in a number of rate proceedings involving small public utilities which were resolved by Option Orders and therefore, are not listed below.

<u>Client</u>	<u>Docket No.</u>
Alpena Power Company	U-10020
Armstrong Telephone Company - Northern Division	92-0884-T-42T
Armstrong Telephone Company - Northern Division	95-0571-T-42T
Artesian Water Company, Inc.	90 10
Artesian Water Company, Inc.	06 158
Aqua Illinois Consolidated Water Divisions and Consolidated Sewer Divisions	11-0436
Aqua Illinois Hawthorn Woods Wastewater Division	07 0620/07 0621/08 0067
Aqua Illinois Hawthorn Woods Water Division	07 0620/07 0621/08 0067
Aqua Illinois Kankakee Water Division	10-0194
Aqua Illinois Kankakee Water Division	14-0419
Aqua Illinois Vermilion Division	07 0620/07 0621/08 0067
Aqua Illinois Willowbrook Wastewater Division	07 0620/07 0621/08 0067
Aqua Illinois Willowbrook Water Division	07 0620/07 0621/08 0067
Aqua Pennsylvania Wastewater Inc	A-2016-2580061
Aqua Pennsylvania Wastewater Inc	A-2017-2605434
Aqua Pennsylvania Wastewater Inc	A-2018-3001582
Aqua Virginia - Alpha Water Corporation	Pue-2009-00059
Aqua Virginia - Blue Ridge Utility Company, Inc.	Pue-2009-00059
Aqua Virginia - Caroline Utilities, Inc. (Wastewater)	Pue-2009-00059
Aqua Virginia - Caroline Utilities, Inc. (Water)	Pue-2009-00059
Aqua Virginia - Earlysville Forest Water Company	Pue-2009-00059
Aqua Virginia - Heritage Homes of Virginia	Pue-2009-00059
Aqua Virginia - Indian River Water Company	Pue-2009-00059
Aqua Virginia - James River Service Corp.	Pue-2009-00059
Aqua Virginia - Lake Holiday Utilities, Inc. (Wastewater)	Pue-2009-00059
Aqua Virginia - Lake Holiday Utilities, Inc. (Water)	Pue-2009-00059
Aqua Virginia - Lake Monticello Services Co.	

Attachment HW-1

(Wastewater)	Pue-2009-00059
Aqua Virginia - Lake Monticello Services Co.	
(Water)	Pue-2009-00059
Aqua Virginia - Lake Shawnee	Pue-2009-00059
Aqua Virginia - Land'or Utility Company	
(Wastewater)	Pue-2009-00059
Aqua Virginia - Land'or Utility Company (Water)	Pue-2009-00059
Aqua Virginia - Mountainview Water Company, Inc.	Pue-2009-00059
Aqua Virginia - Powhatan Water Works, Inc.	Pue-2009-00059
Aqua Virginia - Rainbow Forest Water Corporation	Pue-2009-00059
Aqua Virginia - Shawnee Land	Pue-2009-00059
Aqua Virginia - Sydnor Water Corporation	Pue-2009-00059
Aqua Virginia - Water Distributors, Inc.	Pue-2009-00059
Berkshire Gas Company	18-40
Borough of Hanover	R-2009-2106908
Borough of Hanover	R-2012-2311725
Borough of Hanover	R-2014-242830
Chaparral City Water Company	W 02113a 04 0616
California-American Water Company	CIVCV156413
Connecticut-American Water Company	99-08-32
Connecticut Water Company	06 07 08
Citizens Utilities Company	
Colorado Gas Division	-
Citizens Utilities Company	
Vermont Electric Division	5426
Citizens Utilities Home Water Company	R 901664
Citizens Utilities Water Company	
of Pennsylvania	R 901663
City of Bethlehem - Bureau of Water	R-00984375
City of Bethlehem - Bureau of Water	R 00072492
City of Bethlehem - Bureau of Water	R-2013-2390244
City of Dubois – Bureau of Water	R-2013-2350509
City of Dubois – Bureau of Water	R-2016-2554150
City of Lancaster Sewer Fund	R-00005109
City of Lancaster Sewer Fund	R-00049862
City of Lancaster Sewer Fund	R-2012-2310366
City of Lancaster Water Fund	R-00984567
City of Lancaster Water Fund	R-00016114

Attachment HW-1

City of Lancaster Water Fund	R 00051167
City of Lancaster Water Fund	R-2010-2179103
City of Lancaster Water Fund	R-2014-2418872
Coastland Corporation	15-cvs-216
Consumers Pennsylvania Water Company Roaring Creek Division	R-00973869
Consumers Pennsylvania Water Company Shenango Valley Division	R-00973972
Country Knolls Water Works, Inc.	90 W 0458
East Resources, Inc. - West Virginia Utility	06 0445 G 42T
Elizabethtown Water Company	WR06030257
Hampton Water Works Company	DW 99-057
Illinois American Water Company	16-0093
Indian Rock Water Company	R-911971
Indiana Natural Gas Corporation	38891
Jamaica Water Supply Company	-
Kentucky American Water Company, Inc.	2007 00134
Middlesex Water Company	WR 89030266J
Missouri-American Water Company	WR 2000-281
Missouri-American Water Company	SR 2000-282
Mount Holly Water Company	WR06030257
New Jersey American Water Company	WR 89080702J
New Jersey American Water Company	WR 90090950J
New Jersey American Water Company	WR 03070511
New Jersey American Water Company	WR-06030257
New Jersey American Water Company	WR08010020
New Jersey American Water Company	WR10040260
New Jersey American Water Company	WR11070460
New Jersey American Water Company	WR15010035
New Jersey American Water Company	WR17090985
Newtown Artesian Water Company	R-911977
Newtown Artesian Water Company	R-00943157
Newtown Artesian Water Company	R-2009-2117550
Newtown Artesian Water Company	R-2011-2230259
Newtown Artesian Water Company	R-2017-2624240
North Maine Utilities	14-0396
Northern Indiana Fuel & Light Company	38770

Attachment HW-1

Oklahoma Natural Gas Company	PUD-940000477
Pennichuck Water Works, Inc.	DW 04 048
Pennichuck Water Works, Inc.	DW 06 073
Pennichuck Water Works, Inc.	DW 08 073
Pennsylvania Gas & Water Company (Gas)	R-891261
Pennsylvania Gas & Water Co. (Water)	R 901726
Pennsylvania Gas & Water Co. (Water)	R-911966
Pennsylvania Gas & Water Co. (Water)	R-22404
Pennsylvania Gas & Water Co. (Water)	R-00922482
Pennsylvania Gas & Water Co. (Water)	R-00932667
Public Service Company of North Carolina, Inc.	G-5, Sub 565
Public Service Electric and Gas Company	ER181010029
Public Service Electric and Gas Company	GR18010030
Presque Isle Harbor Water Company	U-9702
St. Louis County Water Company	WR-2000-844
Suez Water New Jersey, Inc.	WR18050593
Suez Water Owego-Nichols, Inc.	17-W-0528
Suez Water Pennsylvania, Inc.	R-2018-3000834
Suez Water Rhode Island, Inc.	Docket No. 4800
Town of North East Water Fund	9190
United Water New Rochelle	W-95-W-1168
United Water Toms River	WR-95050219
Valley Water Systems, Inc.	06 10 07
West Virginia-American Water Company	15-0676-W-42T
West Virginia-American Water Company	15-0675-S-42T
Wilmington Suburban Water Corporation	94-149
York Water Company	R-901813
York Water Company	R-922168
York Water Company	R-943053
York Water Company	R-963619
York Water Company	R-994605
York Water Company	R-00016236

Attachment HW-2

EXHIBITS

ASSET PURCHASE AGREEMENT

THIS AGREEMENT (the "Agreement") dated the 6th day of June, 2012 is by and between PALMETTO OF RICHLAND COUNTY LLC, a Delaware limited liability company ("Buyer") and CITY OF COLUMBIA, SOUTH CAROLINA, or its delegated council of officials appointed and authorized to make decisions on behalf of the City of Columbia (the "Seller"), and sets forth the terms and conditions by which Buyer shall acquire certain assets of Seller used in Seller's sanitary sewer collector system in the Purchased Area (defined below). Buyer and Seller are referred to collectively as the "Parties."

RECITALS

WHEREAS, Seller operates a sanitary sewer collector system serving approximately 3,160 customers in the Long Creek Area and approximately 8,210 customers in the Extended Area (the Extended Area and the Long Creek Area are herein collectively referred to as the "Purchased Area"); and

WHEREAS, Seller desires to sell and Buyer desires to purchase certain assets utilized in the City System (defined below) on and subject to the terms and conditions set forth herein; and,

WHEREAS, without limiting the generality of the foregoing, pursuant to the terms of this Agreement, the Parties desire that, Seller transfer to Buyer (i) the Assets, (ii) the retail wastewater utility service rights to the Purchased Area and (iii) the ownership of certain property, facilities, lines, meters, equipment and easements with respect to the Purchased Area; and

WHEREAS, the sanitary sewer collector system of the Seller servicing the Purchased Area is herein referred to as the "City System."

NOW, THEREFORE, in consideration of the premises and the mutual promises herein made, and in consideration of the covenants herein contained, the Parties agree as follows:

Section I - Definitions

1.1 Definitions. In this Agreement, each of the following terms has the meaning specified or referred to in this Section 1.1:

"8.2(g) Expenditure Claim" shall have the meaning set forth in Section 8.3 hereof.

"Assets" shall mean all right, title, and interest in and to all the assets owned by Seller and utilized exclusively in the operation by the Seller of the City System, except for the Excluded Assets, including all: (a) fee property, real property, leaseholds and subleases, improvements, fixtures, easements, rights-of-way and other appurtenances thereto used exclusively in City System (the "Real Property"), including, without limitation, the real property described on Schedule 3.1(f); (b) tangible personal property (including, without limitation, all machinery and equipment, used exclusively in the City System and those items identified on Schedule 3.1(k)); (c) Included Contracts; (d) intellectual property of any type relating exclusively to the operation of the City System, (e) books, ledgers, files, documents, correspondence, lists, maps, drawings, plans, specifications, warranties and plats related exclusively to the City System, and (f) Post Signing Connection Fees.

"Budgeted Amount Deficiency" shall have the meaning set forth in Section 2.5(g)(ii).

"Buyer" shall have the meaning set forth in the Preamble.

"City System" shall have the meaning set forth in the Recitals.

"Closing" shall have the meaning set forth in Section 2.3(a) hereof.

"Closing Date" shall have the meaning set forth in Section 2.3(a) hereof.

"Contracts" shall mean contracts, licenses, leases and agreement and other similar arrangement, whether oral or written, and rights thereunder, including insurance contracts.

"Consent Decree" shall have the meaning set forth in Section 7.1(l).

"Consent Decree Stipulation" shall have the meaning set forth in Section 7.1(l).

"CPCN" shall mean the Certificate of Public Convenience and Necessity which is required to be issued to Buyer by the PSC for the Purchased Area in connection with the Buyer's acquisition of the Assets

"Curative Expenditures" shall mean any costs or expenditures made or incurred by the Buyer following the Closing to effectuate a Discovered Work Item.

"Curative Work Period" shall mean the period of time commencing with the Closing Date and ending on the third anniversary of the Closing.

"Customer" shall mean a residential (whether single or multi-family dwelling) or commercial unit that has been connected to the City System for wastewater utility service in the Purchased Area.

"Customer List" shall have the meaning set forth in Section 5.1(g) hereof.

"DHEC" shall have the meaning set forth in Section 3.1(g) hereof.

"DHEC Letter" shall mean that certain letter dated September 14, 2010 from Michael J. Montebello of DHEC to Joseph D. Jaco, P.E., of the City of Columbia, and concerning NPDES permit SC0020940.

"DHEC Letter Obligations" shall have the meaning set forth in Section 11.2 hereof.

"Disclosure Schedules" shall mean the disclosure schedules of Seller set forth in Section III hereof.

"Discovered Work Item" shall mean any required repair, maintenance, replacement or other curative work required for items discovered by the Buyer and identified to the Seller during the Curative Work Period with respect to the City System in the Purchased Area, and as to which curative work the Seller would have undertaken consistent with past practice had it discovered such items prior to Closing; *provided, however*, in no event shall a Known Work Item constitute a Discovered Work Item. Any disagreement between Buyer and Seller as to what constitutes a Discovered Work Item shall be resolved pursuant to Section 2.5 hereof.

"Discovered Work Item Notice" shall have the meaning set forth in Section 2.5.

"Encumbrance" shall mean any Liens, charges, pledges, options, mortgages, deeds of trust, security interests, claims, restrictions (whether on voting, sale, transfer, disposition or otherwise), licenses, sublicenses, easements and other encumbrances of every type and description, whether imposed by Law, agreement, understanding or otherwise.

"Engineering Arbitrator" shall have the meaning set forth in Section 2.5.

"Environmental, Health and Safety Laws" shall mean all Laws of federal, state and local governments (and all agencies thereof) concerning pollution or protection of the environment, public health and safety, including laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants or chemical, industrial, hazardous or toxic materials or waste into ambient air, surface water, ground water or lands or otherwise, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, the Solid Waste Disposal Act, as amended by

the Resource Conservation and Recovery Act, the Emergency Plan and Community Right to Know Act of 1986, the Clean Air Act, the Clean Water Act, the Toxic Substances Control Act, the Hazardous Materials Transportation Act, the Federal Insecticide, Fungicide and Rodenticide Act, the Federal Safe Drinking Water Act, the Federal Radon and Indoor Air Quality Research Act and the Occupational Safety and Health Act, as all such Laws or acts have been amended.

"EPA" shall mean the Environmental Protection Agency.

"EPA Obligations" shall have the meaning set forth in Section 11.2 hereof.

"Escrow Agreement" shall have the meaning set forth in Section 2.2(b) hereof.

"Escrow Holdback Amount" shall have the meaning set forth in Section 2.2(b) hereof.

"Excluded Assets" shall mean cash held by Seller, accounts receivable of Seller, any Contracts other than Included Contracts, or any asset related to any employee or Seller Plan or other employee benefit plan of Seller. For purposes of clarity, the parties agree that any asset of Seller that is not exclusively related to the operation of the City System will constitute an Excluded Asset.

"Excluded Liabilities" shall have the meaning set forth in Section 2.4 hereof.

"Existing City Rates" shall have the meaning set forth in Section 3.1(l) hereof.

"Existing EPA Dispute" shall have the meaning given to such term in Section 3.1(g).

"Extended Area" shall mean that area described on Exhibit A attached hereto.

"Governmental Authority" means any government or any agency, bureau, commission, court, authority, department, official, political subdivision, administrative body, tribunal or other instrumentality of any government, whether federal, state or local, domestic or foreign.

"Hazardous Substance" shall mean petroleum, petroleum hydrocarbons or petroleum products, petroleum by-products, radioactive materials, asbestos or asbestos-containing materials, gasoline, diesel fuel, pesticides, radon, urea formaldehyde, lead or lead-containing materials, polychlorinated biphenyls; and any other chemicals, materials, substances or wastes in any amount or concentration which are now included in the definition of "hazardous substances," "hazardous materials," "hazardous wastes," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants," "pollutants," "regulated substances," "solid wastes," or "contaminants" or words of similar import under any of the Environmental, Health and Safety Laws.

"Included Contracts" shall mean the Contracts listed on Exhibit C, if any.

"Interim Notice" shall have the meaning set forth in Section 2.5(g)(i).

"Knowledge" shall mean, in respect of any person or entity, the actual knowledge of such person or entity and each director and officer of such entity (and in the case of the Seller, its City Manager and Director of Utilities), after making all due and reasonable inquiries.

"Known Work Items" shall have the meaning given to such term in Section 3.1(k).

"Law" or "Laws" shall mean any law, rule, regulation, code, plan, injunction, judgment, order, decree, ruling, charge or ordinance of any Governmental Authority, all of the foregoing as now or hereafter, in effect.

"Lien" means, with respect to any property or asset, any mortgage, lien, pledge, charge, security interest or encumbrance in respect of such property or asset.

"Long Creek Area" shall mean that area described on Exhibit B attached hereto.

"Ordinary Course of Business" shall mean the ordinary course of business consistent with past custom and practice.

"Owner Policy" shall have the meaning set forth in Section 7.1(i) hereof.

"Parties" shall have the meaning set forth above.

"Permits" shall have the meaning set forth in Section 3.1(l) hereof.

"Permitted Encumbrances" shall have the meaning set forth in Section 3.1(f) hereof.

"Plan" means any employment, bonus, incentive compensation, deferred compensation, pension, retirement, leave of absence, layoff, vacation, day or dependent care, legal services, cafeteria, life, health, medical, accident, disability, workers' compensation or other insurance, severance, separation, termination or other benefit plan, agreement (including any collective bargaining agreement), practice, policy or arrangement of any kind, whether written or oral, and whether or not subject to ERISA, including, but not limited to any "employee benefit plan" within the meaning of Section 3(3) of ERISA.

"Post-Signing Connection Fees" shall have the meaning set forth in Section 5.1(h) hereof.

"Processing Agreement" shall have the meaning set forth in Section 6.6 hereof.

"PSC" shall mean the Public Service Commission of South Carolina.

"Purchased Area" shall have the meaning set forth above in the Recitals.

"Purchase Price" shall have the meaning set forth in Section 2.2 hereof.

"Rate Schedule" shall mean the Wastewater Rate Schedule approved by the PSC for the Buyer with respect to the Purchased Area in connection with the issuance of the CPCN.

"Regulatory Approvals" shall mean approvals of any Governmental Authority with jurisdiction over the transfer of the Assets and the operation of a sewer utility business by Purchaser in the Purchased Area including, but not limited to, (i) the issuance by the PSC of the CPCN and the approval by the PSC of the Processing Agreement and the Rate Schedule, (ii) the issuance by DHEC of the necessary operating permits to Buyer, and (iii) the 208 Plan as previously promulgated by a Central Midlands Council of Governments ("CMCOG") having been amended by CMCOG to reflect that the Purchased Area is no longer assigned to the Seller and the issuance by CMCOG of a consistency certificate to DHEC.

"Related Agreements" shall have the meaning set forth in Section 6.6 hereof.

"Seller" shall have the meaning set forth in the Preamble.

"Seller Plan" means a Plan that the Seller or any affiliate of the Seller, sponsors, maintains, has any obligation to contribute to, has liability under or is otherwise a party to, or which otherwise provides benefits for employees, former employees, independent contractors or former independent contractors (or their dependents and beneficiaries) of the Seller or any affiliate of the Seller existing on or prior to the date of this Agreement or at any time subsequent thereto and, in the case of a Plan that is subject to Part 3 of Title I of ERISA, Section 412 of the Code, Title IV of ERISA or any other Law, at any time during the six (6) year period preceding the date of this Agreement.

"SSO Listing" shall have the meaning set forth in Section 3.1(g) hereof.

"Stipulated Budget Amount" shall mean \$130,000.

"Survey" shall have the meaning set forth in Section 6.3 hereof.

"System Map" shall have the meaning set forth in Section 3.1(f) hereof.

"Tax" shall mean any federal, state, or local income, gross receipts, license, payroll, employment, severance, unemployment, disability, real property, personal property, sales, use, transfer or other tax of any kind whatsoever, including any interest, penalty or addition thereto, whether disputed or not.

"Title Commitment" shall have the meaning set forth in Section 6.1.

"Title Company" shall have the meaning set forth in Section 6.1.

"UCC Searches" shall have the meaning set forth in Section 6.2.

"Work Dispute Notice" shall have the meaning set forth in Section 2.5.

Section II - Purchase and Sale of Assets; Closing

2.1 Purchase and Sale of Assets. Subject to the terms and conditions of this Agreement, Buyer agrees to purchase from Seller and Seller agrees to sell, transfer, assign and deliver to Buyer, all of the Assets free and clear of all Encumbrances other than the Permitted Encumbrances on the Closing Date against receipt by Seller of the Purchase Price.

2.2 Purchase Price.

(a) Subject to the escrow provisions set forth in Section 2.2(b) below, in consideration for the sale of the Assets, Buyer agrees to pay Seller on the Closing Date EIGHTEEN MILLION Dollars (\$18,000,000.00) (the "Purchase Price").

(b) At the Closing, ONE MILLION THREE HUNDRED THOUSAND AND NO/100 DOLLARS (\$1,300,000.00) of the Purchase Price ("Escrow Holdback Amount") shall be deposited by the Buyer in an escrow account under an Escrow Agreement to be entered into on or before Closing between the Seller, the Buyer and Haynsworth Sinkler Boyd, P.A. as the Escrow Agent substantially in the form attached hereto as Exhibit D (the "Escrow Agreement").

2.3 The Closing.

(a) The closing of the transactions contemplated by this Agreement (the "Closing") shall take place in Columbia, South Carolina, at the offices of Haynsworth Sinkler Boyd, P.A., located at 1201 Main Street, Suite 2200, Columbia, South Carolina on the initial business day of the utility billing cycle of the Seller which first commences after all the conditions set forth in this Agreement have been satisfied or waived for not less than ten (10) business days, or such other date as the Parties may determine (the "Closing Date").

(b) At the Closing, Seller shall deliver (or cause to be delivered) the following to Buyer: (i) a Bill of Sale in the form attached as Exhibit E (the "Bill of Sale"); (ii) limited warranty fee simple deed in the forms attached as Exhibit F (the "Deed") and an assignment of easements in the form attached as Exhibit G (the "Assignment of Easements" – which Assignment shall be made to the knowledge of Seller); (iii) such other instruments of transfer, assignment and conveyance in form and substance reasonably satisfactory to Buyer sufficient to transfer to and effectively vest in Buyer all right, title, and interest in the Assets together with possession of the Assets free and clear of all Encumbrances; and (iv) any other certificates, resolutions or documents reasonably requested by Buyer in connection with the Closing, including, without limitation, a certificate executed by an appropriate representative of Seller certifying that all of the representations and warranties made by Seller herein are true and correct in all material respects as of the Closing Date and that Seller has performed all of its obligations hereunder through the Closing Date. Buyer shall pay the Purchase Price (less the Holdback Escrow Amount) via

wire transfer to Seller at Closing in accordance with wire transfer instructions provided by Seller to Buyer at least two business days prior to the Closing

(c) Buyer and Seller acknowledge that the Excluded Assets shall not be conveyed to Buyer. Seller shall be solely responsible for any liability or obligation related to the Excluded Assets.

2.4 No Assumption of Liability. From and after the Closing Date, Buyer will assume and discharge all obligations of Seller which accrue and are due and performable subsequent to the Closing Date under the Included Contracts to be assigned to Buyer (the "Assumed Liabilities"); provided that (x) the rights thereunder have been duly and effectively assigned to Buyer and (y) Buyer shall not assume any liability arising from or related to any breach of any Included Contracts by Seller prior to the Closing Date or with respect to any Contract of Seller other than an Included Contract. Other than the Assumed Liabilities, Buyer does not assume any direct or indirect duties, liabilities or obligations of Seller of any kind or nature, fixed or unfixed, known or unknown, accrued, contingent or otherwise and it is understood that all such liabilities are retained by Seller, and Seller shall be responsible for the payment and discharge of all such liabilities, including any liability arising from or related to any breach of any Included Contracts by Seller prior to the Closing Date (such liabilities herein being defined as the "Excluded Liabilities"). Without limiting the generality of the foregoing, any liability related to any Excluded Asset shall constitute an Excluded Liability for all purposes of this Agreement.

2.5 Discovered Work Item Procedure.

(a) If during the Curative Work Period, Buyer desires for a Discovered Work Item to be subject to reimbursement by Seller under the Escrow Agreement, the Buyer shall be entitled to deliver to the Seller a written notice ("Discovered Work Item Notice") setting forth in reasonable detail the nature of the Discovered Work Item, including, the proposed repair, maintenance, replacement or other curative work it intends to undertake with respect thereto. The Discovered Work Item Notice shall also provide third party estimates of the Curative Expenditures which Buyer anticipates will be incurred to effectuate such Discovered Work Item (or if available, copies of third party invoices for work performed as of the date of such Discovered Work Item Notice).

(b) Within thirty (30) days after delivery by Buyer of any Discovered Work Item Notice, Seller shall notify Buyer in writing if Seller disagrees with such Discovered Work Item Notice ("Work Dispute Notice"), which Work Dispute Notice shall set forth in reasonable detail the basis for disputing that the curative work as described in the applicable disputed Discovered Work Item Notice should constitute a Discovered Work Item. If Seller does not timely deliver a Work Dispute Notice with respect to any Discovered Work Item Notice, then the curative work described therein shall constitute a Discovered Work Item for all purposes of this Agreement.

(c) If Seller does timely deliver a Work Dispute Notice with respect to any Discovered Work Item Notice, then the Seller and Buyer shall seek to jointly determine to what extent if any, the curative work described in the Discovered Work Item Notice shall constitute a Discovered Work Item for purposes of this Agreement. If Seller and Buyer are unable to make such a joint determination within twenty (20) days after the date on which Buyer receives the Work Dispute Notice, then either party may cause the dispute to be referred to the L.G. Lewis, Jr. P.E. of Greenville, South Carolina (the "Engineering Arbiter") by giving written notice to the other party and to the Engineering Arbiter.

(d) The Engineering Arbiter shall determine, based solely on presentations made to it by Seller and Buyer, and not by any independent review, whether the curative work described in the Discovered Work Item Notice shall constitute a Discovered Work Item for purposes of this Agreement.

Fees and expenses of the Engineering Arbiter will be borne fifty percent (50%) by the Buyer and fifty percent (50%) by the Seller. The Engineering Arbiter shall be instructed to make its determination within thirty (30) days following the date the matter is referred to it and to issue a written order reflecting such determination. Any determination made by the Engineering Arbiter pursuant to this Section 2.5 shall be final and binding upon the parties and may be enforced by any court of competent jurisdiction and shall not be subject to any other arbitration or dispute resolution provision set forth in this Agreement. The Parties agree that the Engineering Arbiter shall be provided with a copy of the Escrow Agreement and that at upon the written request of the Buyer, the Engineering Arbiter shall be authorized to deliver the "Written Directions" (as defined in the Escrow Agreement) in the manner and to the persons contemplated by Section 4(b) of the Escrow Agreement, including by providing the declaration, determinations and sworn statements described therein.

(e) Buyer shall be entitled to be reimbursed for any Curative Expenditures incurred by it with respect to any item which is ultimately determined to be a Discovered Work Item pursuant to the provisions of this Section 2.5, subject to the provisions of Section 8.3 hereof and the Escrow Agreement.

(f) If L. G. Lewis, Jr., P.E. declines to act as the Engineering Arbiter, the Buyer and the Seller shall seek to agree upon a replacement Engineering Arbiter. Failing such an agreement, the replacement of an Engineering Arbiter shall be determined by the Head of the Engineering Department at Clemson University or at such other reputable university as may be reasonably agreed to by the Parties. Any replacement Engineering Arbiter appointed pursuant to this Paragraph (f) shall be deemed to be the Engineering Arbiter for all purposes.

(g) Notwithstanding anything herein to the contrary, with respect to the Curative Expenditures incurred by the Buyer prior to the Stipulated Budget Amount being exceeded as contemplated in Section 8.3, the following provisions shall apply:

- (i) On not less than a semi-annual basis, Buyer shall provide a written notice ("Interim Notice") to the Seller setting forth in reasonable detail the Curative Expenditures incurred by the Buyer during the period covered by the Interim Notice, including details on the nature of the Discovered Work Items and copies of third party invoices for the work performed as at the date of the Interim Notice.
- (ii) Within thirty (30) days after delivery by the Buyer of any Interim Notice, Seller shall notify Buyer in writing if Seller disagrees that the Curative Expenditures covered by such Interim Notice should be credited against the Stipulated Budget Amount for purposes of determining whether the Stipulated Budget Amount has been expended (and if not, the amount by which the Stipulated Budget Amount has not been exceeded the "Budgeted Amount Deficiency") as contemplated in Section 8.2 and all other purposes under this Agreement. If the Seller does not timely deliver such notice, then all such Curative Expenditures shall be credited against the Stipulated Budget Amount for the purposes described in the previous sentence.
- (iii) If the Seller does timely deliver the notice contemplated in subpart (ii) above, then such disagreement between the Parties shall be resolved in the manner consistent with the provisions of Paragraphs (c) through (f) above, such that any decision made by the Engineering Arbiter as to whether any Curative Expenditures should be credited against the Stipulated Budget Amount (for purposes of determining whether the Stipulated Budget Amount has been exceeded and if not, the Budgeted Amount Deficiency and for all other purposes under the Agreement) shall be binding upon the Parties.

Section III - Representations and Warranties of Seller

3.1 Except as set forth in the Disclosure Schedules, Seller represents and warrants that as of the date hereof and as of the Closing Date:

(a) Seller has all the requisite power, authority and capacity to enter into this Agreement and the Related Agreements.

(b) Seller is a municipal corporation validly existing under the laws, and a political subdivision, of the State of South Carolina and is duly authorized to engage in the provision of sewer utility services in the Purchased Area pursuant to the laws of said State and Seller's own ordinances or resolutions.

(c) This Agreement has been, and each Related Agreement will be, duly executed and delivered by Seller and constitutes (or will constitute upon execution) a legally binding and enforceable obligation of Seller enforceable against it in accordance with its terms.

(d) This Agreement and the Related Agreements and their consummation will not conflict with or result in a breach of any agreement, Law, judgment, order, or Permits or other government permit applicable to Seller, nor will it result in the creation of an Encumbrance, or require consent from or notification of any lender, other third party or any Governmental Authority except for the Regulatory Approvals. Without limiting the generality of the foregoing, the City Council of Seller passed an appropriate ordinance approving the transactions contemplated by this Agreement and the Related Agreements on June 5, 2012 and no further approval is required from the City Council or the City for such transactions.

(e) The execution and delivery of this Agreement and the Related Agreements by Seller, and the performance by Seller of its obligations hereunder and thereunder (including the transfer of the Assets to the Buyer in accordance with the terms hereof and the performance of services to be provided by Seller under the Processing Agreement) are consistent with, and in compliance with, all ordinances, resolutions or other Laws or bonds binding on the Seller or otherwise relating to the Assets or the transfer thereof.

(f) Schedule 3.1(f) is a true, correct and complete list of all (i) real property owned, beneficially or of record, or leased, subleased and (ii) to the knowledge of Seller, used by easement or otherwise, operated or occupied by Seller (including any leases pursuant to which Seller is either the lessee, sublessee, lessor or sublessor of the real property) included as an Asset (individually the "Property," and collectively, the "Properties"). Seller has good and indefeasible title to each of the Properties owned by Seller. Each of the Properties owned by Seller is owned in fee simple absolute as indicated on Schedule 3.1(f), free and clear of all Encumbrances, except as noted as a "Permitted Encumbrance" on such Schedule. Each lease or sublease covering the Properties is valid, subsisting in full force and effect and binding upon the parties thereto in accordance with its terms in all material respects, and Seller has satisfied in full or provided for all of its respective liabilities and obligations thereunder requiring performance prior to date hereof. Except for those Properties subject to leases where Seller is a lessor or sublessor, Seller is in possession of the Properties and has a valid and subsisting leasehold interest in such Properties pursuant to the respective lease. Seller has good and valid title to all its personal property included as an Asset free and clear of all Encumbrances. Attached hereto as Exhibit H is a map of the City System (the "System Map"). To the Knowledge of the Seller, the System Map provides an accurate depiction of all material lines constituting the City System, including proper identification of the trunk lines and lift stations of the City System.

(g) Except as set forth in Schedule 3.1(g), Seller, solely in operating the City System, and the Assets is, and at all times has been, in substantial compliance with all Laws that are or where applicable to it or to the conduct or operation of the City System or the ownership or use of any the Assets, including, without limitation, any rules or regulations of the PSC, South Carolina Department of Health and Environmental Control ("DHEC"), the EPA and any other Governmental Authority. Except as set forth in Schedule 3.1(g), there are and have been no violations by Seller of any Environmental, Health and Safety Law and, to the Knowledge of Seller, no violations of any such Law have been committed on properties owned by Seller included in the Assets. Schedule 3.1(g) contains a true and correct description of the current issues existing between the City and the EPA (the "Existing EPA Dispute"). Attached as Schedule 3.1(g) is a true and correct listing (by date and location) of each Sanitary Sewer Overflow ("SSO") filed with respect to the Purchased Area within the preceding twelve calendar months ("SSO Listing").

(h) There are no pending actions, claims, suits or proceedings to which Seller is a party, or to the Knowledge of Seller threatened, that may prevent or delay the Closing of the transactions contemplated hereby or have any effect on the Assets.

(i) Seller is not a party to any Contract relating exclusively to the City System other than as set forth on Schedule 3.1(i) and, as of the date hereof and upon consummation of the transactions contemplated hereby, is not and will not be in default under any such Contract and, to the Knowledge of Seller, no other party to any such Contract is in default thereunder.

(j) There are no unpaid taxes or unfiled Tax returns that could result in an Encumbrance against any of the Assets that could affect the rights of the Purchaser to use any of the Assets after Closing and there are no Tax liens with respect to any Assets because the Seller is exempt from any Tax obligation.

(k) Schedule 3.1(k) sets forth all material tangible property owned by Seller included in the Assets, and such Assets, to the Knowledge of the Seller, are adequate for the uses to which they are being put and without the need for repair, maintenance or replacement or other curative work other than the budget of known construction needs for the Purchased Area with respect to the City System set forth on Schedule 3.1(k) (the "Known Work Items"), and, to the Knowledge of the Seller, are sufficient for the continued operation of the City System after the Closing Date in substantially the same manner as conducted prior to the Closing.

(l) Schedule 3.1(l) sets forth all rights, licenses and permits of Seller associated with the City System (the "Permits"); and all such Permits are in full force and effect and are valid and enforceable in accordance with their respective terms. Such Permits constitute all the licenses and permits required for the operation of the City System as presently operated, and all such Permits will be in full force and effect at Closing.

(m) Schedule 3.1(m) sets forth a true and correct listing of Seller's existing rates with respect to the City System (the "Existing City Rates").

(n) Except as set forth on Schedule 3.1(n), Seller has made no commitment, and has undertaken no obligation, oral or written, fixed or contingent on the occurrence of any other action or event, to construct any lift station, install any pumps, lay any lines or take any similar actions in the Purchased Area.

(o) Seller does not require or receive any deposits or similar payments from customers of the City System (including any Customer that may be transferred to the Buyer pursuant to the terms of this Agreement) for wastewater or water utility services.

(p) The representations and warranties of Seller contained in this Agreement and in all other documents and information furnished to Buyer are complete and accurate and do not and will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements made not misleading.

Section IV - Representations and Warranties of Buyer

4.1 Buyer represents and warrants to Seller as follows:

(a) Buyer is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation;

(b) this Agreement constitutes, and each Related Agreement when executed will constitute, a legally binding and enforceable obligation of Buyer enforceable against Buyer in accordance with its terms; and

(c) there are no proceedings or other actions commenced against Buyer that may prevent or delay the Closing of the transactions contemplated hereby.

(d) BUYER ACKNOWLEDGES AND AGREES THAT, EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS AGREEMENT, THE SELLER HEREBY DISCLAIMS ANY REPRESENTATIONS, WARRANTIES, PROMISES, COVENANTS, AGREEMENTS OR GUARANTIES OF ANY KIND OR CHARACTER WHATSOEVER WHETHER EXPRESS, IMPLIED OR OTHERWISE REGARDING THE MERCHANTABILITY, MARKETABILITY, FITNESS FOR A PARTICULAR PURPOSE OR FUTURE PROFITABILITY OF THE CITY SYSTEM OR THE ASSETS.

Section V - Agreements Through Closing

5.1 During the period from the date hereof until the Closing:

(a) Seller shall provide Buyer with reasonable access to the Assets and its City System Customers and suppliers, including access for the purposes of conducting the environmental investigations or audits contemplated in Section 7.1(d), and for purposes of conducting the additional due diligence investigation described on Schedule 5.1(a).

(b) Seller shall not, without the consent of Buyer, acquire or dispose of any Assets, terminate or amend any Included Contract or make any other commitments or take any actions that are outside the Ordinary Course of Business with respect to the Assets or the operation of the City System.

(c) Buyer and Seller shall cooperate to the maximum extent possible to satisfy all Closing conditions, including obtaining all regulatory requirements necessary for the transactions contemplated hereby, including the Regulatory Approvals, (it being understood that Buyer shall be primarily responsible for obtaining the Regulatory Approvals, and that Seller's obligation under this Paragraph

shall be limited to providing such reasonable support as may be requested by Buyer, and it being further understood that Seller shall be entitled to be reimbursed up to an amount not to exceed \$50,000 for out-of-pocket expenses actually incurred by it in providing support pursuant to this Paragraph). Without limiting the generality of the foregoing, the Parties acknowledge that the sale of the Assets contemplated by this Agreement is subject to and contingent upon receipt of all Regulatory Approvals, including the approval of the PSC upon terms and conditions reasonably acceptable to Buyer (which terms shall include PSC having approved for Buyer a Rate Schedule that will allow the Buyer to operate the City System following the Closing under the Existing City Rates). The Parties shall apply to the PSC for permission to transfer the Assets as promptly as reasonably possible after execution of this Agreement. The remaining Regulatory Approvals will be promptly sought thereafter by the Parties.

(d) Seller shall operate the City System in the usual, regular and ordinary manner consistent with past practice and use its reasonable commercial efforts to preserve Seller's present relationships with persons having business dealings with the City System. Seller shall not alter the Existing City Rates or otherwise propose or impose any new or different fees, charges or other costs on the Customers such that the Customers would be affected in a disproportionate or adverse manner as compared to other customers of the City of Columbia.

(e) Seller shall promptly notify Buyer of any fact or condition that causes or constitutes a breach of any of Seller's representations and warranties, or if Seller become aware of the occurrence after the date of this Agreement, of any fact or condition that would or could have a materially adverse effect on the Assets or the City System, but no such notification shall cure any breach of a representation or warranty which would otherwise exist but for such notice.

(f) Seller will not, and will cause each of its representatives and advisors of Seller not to, directly or indirectly, solicit, initiate or encourage any inquiries or proposals from, discuss or negotiate with, provide any non-public information to, or consider the merits of any unsolicited inquiries or proposals from, any person (other than Buyer) relating to any transaction involving the sale of the City System or Assets (other than in the Ordinary Course of Business) of Seller, or any similar transaction.

(g) Within 60 days from the date of this Agreement, Seller shall provide to Buyer a Schedule 5.1(g) providing a true and accurate listing of (1) the number and identity of all Customer accounts of Seller as of the date of such listing (the "Customer List"), and (2) for each Customer reflected on the Customer List, the address of such Customer and the billing history (including Customer usage) for such Customer for the preceding twelve calendar months. Buyer shall reimburse Seller for its reasonable costs out-of-pocket expenses incurred for providing this information up to an amount not to exceed \$5,000. For all purposes of this Agreement, the disclosures made in this Section 5.1(g) shall constitute a representation and warranty made by the Seller to the Buyer.

(h) Buyer shall be entitled to receive and collect any connection fees for future development in the Purchased Area and Seller shall cause all such connection fees to be paid directly to the Buyer from the applicable developer (whether received and collected on or before Closing, or after Closing, the "Post-Signing Connection Fees").

(i) Immediately following the approval by the appropriate federal Court of the Consent Decree entered into between the Seller and the EPA, the Seller shall provide a copy thereof to Buyer.

Section VI - Title Commitment and Survey

6.1 Commitment Documentation. Buyer may elect, at its cost and expense, to obtain a Commitment for Title Insurance (the "Title Commitment") from a title company of its choosing (the "Title Company") setting forth the status of title of the Real Property described on Schedule 3.1(f) and showing all Encumbrances and other matters, if any, relating to the Real Property, and all documents each referred to in the Title Commitment, including, without limitation, plats, deeds, restrictions and easements.

6.2 UCC Searches. Buyer may elect, at its cost and expense, to obtain current searches (the "UCC Searches") performed by Capitol Commerce Reporter, UCC Reporting Service or other similar service acceptable to Buyer reflecting all UCC-1 filings which relate to the Real Property and the Assets which reflect Seller or any other person who has owned the Real Property within the last five (5) years as "Debtor".

6.3 Survey. Buyer may elect, at its cost and expense, to have a survey of the Real Property prepared by a surveyor selected by Buyer (the "Survey"). For purposes of the description to be included in the Owner Policy to be issued pursuant to Section 7.1(i) and the Deeds, the field notes prepared by the surveyor shall control any conflicts or inconsistencies with Schedule 3.1(f), and such field notes shall be incorporated herein by this reference upon their completion and shall constitute the property description attached to the Deed.

6.4 Encumbrances. If the Title Commitment, Survey or the UCC Searches, or any update of the Title Commitment, Survey or UCC Searches, shows that the Real Property or any other Asset is subject to any Encumbrance other than the Permitted Encumbrances (herein defined), then Seller shall, subject to the terms hereof, cure or remove such Encumbrances. Buyer shall have seventy-five (75) days from the date it has received all of the Title Commitment, Survey and UCC Searches in which to examine the same and notify Seller of those Encumbrances subject to which Buyer will accept title to the Real Property (the "Permitted Encumbrances") and those Encumbrances which Buyer finds objectionable. If such notice is not given, it shall be deemed that all Encumbrances reflected by the Title Commitment, Survey and UCC Searches are objectionable. Seller, at its sole cost and expense, shall use its commercially reasonable efforts to cure or remove all Encumbrances, other than Permitted Encumbrances, and deliver within thirty (30) days of the date of Buyer's notice an amended Title Commitment, Survey and UCC Searches reflecting the cure of such Encumbrances. Seller shall not be obligated to spend more than \$50,000.00 in the aggregate to cure or remove Encumbrances (other than Liens for borrowed money or other similar monetary Liens). Seller shall not place, or allow to be placed, any Encumbrance of any nature against or relating to the Real Property between the date hereof and the Closing. In the event any such Encumbrance is placed against or otherwise becomes relative to the Real Property between the date hereof and the Closing, notwithstanding the other provisions of this Section 6.4 or Section 6.5, Seller, at its sole cost and expense subject to the limitation set forth above, shall cure or remove such Encumbrance and shall deliver within thirty (30) days of the date such Encumbrance is placed against or otherwise becomes relative to the Real Property an amended Title Commitment, Survey and UCC Search reflecting the cure of such Encumbrance.

6.5 Remedies. If Seller refuses or fails to cause any Encumbrance (other than a Permitted Encumbrance) to be removed or cured, or Seller gives notice to Buyer that Seller will not cause such Encumbrance to be removed or cured, then Buyer shall have the right and remedy to:

(a) unilaterally extend the Closing Date for a period of not more than sixty (60) days after the date which the Agreement could otherwise be terminated pursuant to Section 9.3(e) to afford Seller

additional time within which to cure such Encumbrance (without prejudice to the later exercise of Buyer's rights set forth in subparts (b) and (c) of this subsection);

(b) consummate the purchase of the Assets pursuant to this Agreement, in which event the Purchase Price shall be reduced by the amount constituting an Encumbrance, but when added to all cures by Seller under Section 6.4, Seller shall not be responsible for more than \$50,000 in total; or

(c) terminate this Agreement by giving Seller written notice thereof at or before Closing, or if sooner, by no later than one hundred and twenty (120) days after the date on which Seller has delivered the notice contemplated in the preamble to this Section 6.5.

6.6 Related Agreements. In connection with the Closing, the Buyer and Seller shall execute and deliver to each other (and the Escrow Agent, as applicable), (i) the Escrow Agreement, (ii) a Wastewater Processing Agreement substantially in the form of Exhibit I attached hereto (the "Processing Agreement"), and (iii) a Meter Reading Agreement substantially in the form of Exhibit J (collectively, the "Related Agreements").

Section VII - Conditions to Close

7.1 Buyer's Conditions to Close. Unless waived by Buyer in its sole discretion, Buyer's obligation to consummate the transactions contemplated by this Agreement is subject to the following conditions:

(a) (i) the representations and warranties of Seller shall be accurate as of the date of this Agreement and shall be true and correct in all material respects at and as of the Closing Date; *provided, however*, for purposes of determining whether the condition set forth in this Section 7.1(a) has been satisfied, all Knowledge or similar qualifiers contained in any representation or warranty shall be disregarded, and (ii) Seller shall have performed and complied with all covenants and conditions required to be performed and complied with by them at or prior to the Closing Date.

(b) all statutory requirements for the valid consummation of the transactions contemplated herein shall have been fulfilled and all governmental consents, approvals or authorizations necessary for the valid consummation of the transactions contemplated herein shall have been obtained including, but not limited to, the Regulatory Approvals;

(c) no action or suit shall have been commenced and no Laws shall have been enacted or proposed that reasonably may be expected to prohibit Buyer's ownership of the Assets or render Buyer unable to purchase the Assets, make the sale of the Assets illegal or impose material limitations on the ability of Buyer to exercise full rights of ownership of the Assets;

(d) the completion, at the sole option and expense of Buyer, of a Phase I environmental report or other environmental investigation regarding the Real Property and, if recommended, the completion of a Phase II environmental report, and the contents of each such report being to the reasonable satisfaction of Buyer;

(e) Buyer shall have completed to its sole satisfaction a due diligence review of the Assets and the Business;

(f) the parent of Buyer shall have approved the transactions contemplated by this Agreement;

(g) all consents, approvals and waivers necessary to permit Seller to transfer the Assets to Buyer, or necessary to permit Buyer to operate the City System as presently operated, shall have been obtained, including the Regulatory Approvals, which Regulatory Approvals shall include the granting of a Tariff to allow the Buyer to continue to operate the City Systems under the Existing City Rates; and the City Council of Seller shall have passed an appropriate ordinance approving the transactions contemplated by this Agreement and the Related Agreements;

(h) Seller shall have delivered to Buyer at or prior to Closing a certificate executed by an appropriate representative of Seller that certifies that all necessary actions (including the adoption of ordinances, resolutions or the like) authorizing the execution and delivery of this Agreement and the other agreements and documents contemplated hereby and the taking of all actions contemplated hereby and thereby have been taken;

(i) Buyer, at its sole expense and cost, shall have caused the Title Company to issue to Buyer (or deliver the Title Company's irrevocable and unconditional commitment to issue to Buyer), an owner policy of title insurance issued by Title Company (the "Owner Policy") and insuring, to the satisfaction of Buyer, that Buyer is the owner of the Real Property subject only to the Permitted Encumbrances and the standard printed exceptions, with the exception as to restrictions marked "none of record" (other than those that constitute Permitted Encumbrances), the exception for taxes limited to the year in which the Closing occurs and subsequent years and subsequent assessments for prior years due to change in land usage or ownership, the exception for "parties in possession" deleted and the area and boundary exception modified to read "any shortages in area";

(j) Seller shall have delivered to Buyer at Closing a certificate executed by an appropriate representative of Seller, dated as of the Closing Date, that certifies that the representations and warranties of Seller contained in this Agreement are true and correct in all material respects as of the Closing Date and that Seller has performed and complied with all covenants and conditions required by this Agreement to be performed and complied with by any of them at or prior to Closing;

(k) Seller shall have provided to Buyer at Closing a certificate executed by an appropriate representative of the Seller hereof updating and supplementing (i) the Customer information provided in Section 5.1(g) (other than the historical billing information which need not be updated), and (ii) the SSO Listing;

(l) Each of the Related Agreements shall have been executed and delivered in the manner contemplated by Section 6.6 and the Escrow Agreement shall have been executed and delivered by the Escrow Agent;

(m) Buyer shall have received in form satisfactory to it in its sole discretion, (i) a bring down of the legal opinion from the general counsel of Seller delivered to Buyer contemporaneous with the execution of this Agreement, as to the representations and warranties set forth in Sections 3.1(a) through 3.1(e) hereof, and (ii) a legal opinion from McNair Law Firm, P.A. outside bond counsel to the Seller, to the effect that the execution and delivery of this Agreement and the Related Agreements by Seller, and the performance by Seller of its obligations hereunder and thereunder are consistent with, and in compliance with, any bonds binding upon the Seller or otherwise relating to the Assets or the transfer thereof, and that the Assets are not encumbered by any such bonds;

(n) Buyer shall be reasonably satisfied that it is getting good and marketable title to all real estate utilized in the operation of the City System and that such real estate constitutes all the real property

required to operate the City System in the manner currently being operated (including any necessary grants of rights-of-way from Richland County); and

(o) the EPA shall have agreed, in a form and substance satisfactory to Buyer in its discretion, that the Existing EPA Dispute does not, and will not, affect in any way the Assets, the City System or the Buyer, including without limitation, by stipulating that the Consent Decree being negotiated between the Seller and the EPA with respect to the EPA Dispute (the "Consent Decree"), shall provide that upon the acquisition of the City System and the Assets by the Buyer pursuant to the terms hereof, such Consent Decree shall have no application to the City System or the Assets ("Consent Decree Stipulation").

7.2 Seller's Conditions to Close. Unless waived by Seller in its sole discretion, Seller's obligations to consummate the transactions contemplated by this Agreement is subject to the following conditions:

(a) (i) the representations and warranties of Buyer shall be accurate as of the date of this Agreement and shall be true and correct in all material respects at and as of the Closing Date, and (ii) Buyer shall have performed and complied with all covenants and conditions required to be performed and complied with by them at or prior to the Closing Date;

(b) other than approval of the City Council of Seller (which has already occurred pursuant to an adoption of an appropriate ordinance approving the transactions contemplated by this Agreement and the Related Agreements), all statutory requirements for the valid consummation of the transactions contemplated herein shall have been fulfilled and all governmental consents, approvals or authorizations necessary for the valid consummation of the transactions contemplated herein shall have been obtained including, but not limited to, the Regulatory Approvals;

(c) no action or suit shall have been commenced and no Laws shall have been enacted or proposed that reasonably may be expected to prohibit ownership of the Assets or render Buyer unable to purchase the Assets, or make the sale of the Assets illegal;

(d) all consents, approvals and waivers necessary to permit Seller to transfer the Assets to Buyer as disclosed on Schedule 3.1(d), shall have been obtained, including the Regulatory Approvals;

(e) Buyer shall have delivered to Seller at Closing a certificate executed by an appropriate representative of Buyer, dated as of the Closing Date, that certifies that the representations and warranties of Buyer contained in this Agreement are true and correct in all material respects as of the Closing Date and that Buyer has performed and complied with all covenants and conditions required by this Agreement to be performed and complied with by any of them at or prior to Closing; and

(f) With respect to the Existing EPA Dispute, (i) the EPA shall have provided the Consent Decree Stipulation or (ii) the Buyer shall have agreed in writing to be bound by and assume the obligations of the Seller under the Consent Decree with respect to the City System and the Assets (but not otherwise).

Section VIII - Seller Responsibility and Escrow Provisions

8.1 Survival. Except as specifically provided in agreements delivered pursuant to this Agreement, no representations, warranties, covenants and obligations in this Agreement will survive Closing.

8.2 Seller's Responsibility. Notwithstanding any Knowledge or investigation acquired by Buyer prior to Closing with respect thereto, following the Closing Seller shall continue to be financially responsible for:

(a) violations or claimed violations of any Environmental, Health and Safety Laws which relate in any way to the ownership, occupancy, use, operation or conditions of the City System or any present or former Real Property or Asset utilized by Seller in connection with its operations of the City System or otherwise related to the operation of the City System on or before the Closing Date;

(b) any cleanup or remediation requirement or liability or any other damages or liability arising from a release or threatened release or exposure to any Hazardous Substances to the extent that those Hazardous Substances are present at any present or former Real Property or in any Asset utilized by Seller in connection with its operations of the Business or otherwise related to the conduct of the Business on or before the Closing Date;

(c) any Taxes attributable to Seller;

(d) The existing EPA Dispute;

(e) Any employee benefit plan, including any Seller Plan maintained by the Seller, or the termination of such Plan or otherwise pertaining to any employees or former employees of the Seller, or the termination of any such employees;

(f) any Excluded Liabilities; and

(g) Curative Expenditures for any Discovered Work Items as provided in Section 2.5 and in the Escrow Agreement but limited to the Escrow Holdback Amount.

8.3 Escrow Holdback Amount. Notwithstanding anything herein to the contrary, the Buyer agrees that any action asserted by it with respect to any claim against Seller for a claim for a Curative Expenditure under Section 8.2(g) ("8.2(g) Expenditure Claim") shall exclusively be made under the Escrow Agreement and the maximum amount of liability of Seller with respect to all such 8.2(g) Expenditure Claims shall in no event exceed \$1,000,000.00. In addition, notwithstanding anything herein to the contrary, (i) Seller shall not be liable for any Curative Expenditure except to the extent that the aggregate amount of all Curative Expenditures exceeds the Stipulated Budget Amount (the determination of whether any particular Curative Expenditures should be credited against the Stipulated Budget Amount and whether the Stipulated Budget Amount has been exceeded, and if not, the determination of the Budgeted Amount Deficiency, shall be made in accordance with the provisions of Section 2.5(g)), and (ii) it is further understood and agreed that the Escrow Holdback Amount shall also be available to Buyer to recover any amounts owed to it as a result of a breach by Seller of any of its obligations under Sections 8.2(a) through 8.2(f) or 8.4 of this Agreement.

8.4 Receipt of Post-Signing Connection Fees. From and after the Closing, the Seller shall promptly pay to Buyer any Post-Signing Connection Fees which were received by the Seller on or before the Closing in contravention of the provisions of Section 5.1(h).

Section IX - Covenants After Closing

9.1 Records and Documents. For a period of six years after the Closing Date, at any Party's reasonable request, the non-requesting Party(ies) shall provide the requesting Party and its

representatives with access during normal business hours to, and the right to make copies of, those records and documents solely related to the Assets or the City System for a period of time prior to the third anniversary date of the Closing Date.

9.2 Termination

9.3 Termination. Anything herein to the contrary notwithstanding, this Agreement shall terminate upon the occurrence of any of the following events:

- (a) by written consent of Buyer and Seller;
- (b) subject to Section 6.5(c), on written notice from Buyer to Seller or Seller to Buyer if the Closing shall not have occurred on or before 120 days from the date that the last of the Regulatory Approvals is obtained or deemed to have been satisfied in accordance with Section 7.1(g); *provided, however*, that if the Closing has not occurred by such date due to a breach of this Agreement by one of the Parties, that Party may not terminate this Agreement;
- (c) upon the issuance of an order by the appropriate Governmental Authority denying the Regulatory Approval requested by the Parties;
- (d) on written notice from Buyer to Seller that Seller has breached any of its or his respective representations, warranties or obligations hereunder and such breach has not been cured by Seller or waived by Buyer within ten (10) days after receipt of written notice of such breach from Buyer, including, but not limited to, Seller's failure to remove or cure any Encumbrances under Section 6.4;
- (e) on written notice from Buyer to Seller that any of the conditions in Sections 7.1(a), (b), (c), (d), (e), (f), (g), (i), (n) or (o) are not or will not be satisfied; or
- (f) on written notice from Seller to Buyer that Buyer has breached any of its representations, warranties or obligations hereunder and such breach is not cured by Buyer or waived by Seller within ten (10) days after Buyer's receipt of written notice of such breach from Seller.

9.4 No Liabilities in Event of Termination. In the event of any termination of this Agreement as provided above, this Agreement shall forthwith become wholly void and of no further force or effect and there shall be no liability on the part of Buyer, Seller or their respective officers, directors, or agents, except that (a) the provisions of Sections 10.1, and 11.1, 11.3, 11.4, 11.6, 11.8, 11.12 and this Section 10.2 shall remain in full force and effect; (b) nothing contained herein shall release any Party from liability for any willful failure to comply with any provision, covenant or agreement contained herein; and (c) Buyer shall pay to Seller an amount of any Post-Signing Connection Fees received by it prior to termination pursuant to Section 5.1(h) hereof.

Section X - General Provisions

10.1 Expenses. Buyer has agreed to be responsible for the expenses of Haynsworth Sinkler Boyd, PA in providing representation to the Seller in connection with this Agreement. Except as provided in this Section 10.1 and to the extent otherwise provided for in Section 5.1(c) and Section 5.1(g), each Party shall be responsible for its own expenses incurred in connection with this Agreement.

10.2 Further Assistance. Prior to the Closing, Seller shall use its commercially reasonable efforts to consummate the transactions contemplated by this Agreement including, without limitation, obtaining any

of the consents, approvals or other waivers described on Schedule 3.1(d). Prior to the Closing, Seller shall also use its commercially reasonable efforts to cause the Consent Decree Stipulation to be provided and for the Consent Decree to propose no greater obligations with respect to the City System and the Assets than the obligations imposed under the DHEC Letter (the "DHEC Letter Obligations") and the obligations set forth on Schedule 11.2 (the "EPA Obligations"). From and after the Closing, Seller shall execute and deliver, without additional expense to Buyer, such additional documents and take such additional actions as are reasonably necessary to transfer the Assets and the City System to Buyer and to allow the Buyer to more effectively operate the City System.

10.3 Dispute Resolution. Subject to the Parties' rights to terminate this Agreement as specifically provided herein, in the event that a dispute arises out of or in connection with this Agreement (a "Dispute"), such Dispute shall be resolved in accordance with the procedures specified in this Section 10.3, which shall be the sole and exclusive procedures for the resolution of any Disputes.

(a) Either Party may request in writing to settle a Dispute by mediation. The mediator shall be a certified mediator experienced in commercial transactions of the nature described in this Agreement. Unless otherwise agreed, the mediation shall take place in Columbia, South Carolina. Each Party shall share equally in the expenses of mediation, provided that each Party shall be responsible for its own attorneys' fees and cost incurred with respect to such mediation. Neither Party shall commence any arbitration or court proceedings, other than as contemplated in Section 2.5 or for injunctive or other similar equitable relief, unless and until either (i) the mediation has not been successful within sixty (60) days of being requested or (ii) the other Party refuses to participate in mediation.

(b) SUBJECT TO THE MEDIATION PROVISION ABOVE, THE CIRCUIT COURTS LOCATED IN RICHLAND COUNTY, SOUTH CAROLINA SHALL HAVE EXCLUSIVE JURISDICTION OVER ANY DISPUTE.

10.4 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF SOUTH CAROLINA WITHOUT GIVING EFFECT TO ANY CHOICE OR CONFLICT OF LAW PROVISION OR RULE THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF SOUTH CAROLINA.

10.5 Notice. Any notice, request, instruction, correspondence or other document required to be given hereunder by either Party to the other ("Notice") shall be in writing and delivered in person or by courier service requiring acknowledgment of delivery or mailed by certified mail, postage prepaid and return receipt requested, or by fax, as follows:

If to Buyer, addressed to:

Palmetto of Richland County LLC
1710 Woodcreek Farms Rd.
Elgin, SC 29045
Attention: Ed Wallace
Fax: (803) 699-2423

With a copy to:

Gardere Wynne Sewell LLP
1000 Louisiana, Suite 3400
Houston, Texas 77002-5007
Attention: Daniel Cohen
Fax: (713) 276-6860

If to Seller, addressed to:

City of Columbia
P. O. Box 147
Columbia, SC 29217
Attn: City Manager
Fax: (803) 255-8922

With a copy to:

City of Columbia – Legal Department
P.O. Box 667
Columbia, SC 29202
Attention: City Attorney
Fax: (803) 737-4250

And

Haynsworth Sinkler Boyd, P.A.
1201 Main Street, Suite 2200
Columbia, South Carolina 29201
Attn: Randolph B. Epting
Fax: (803) 765-1243

Notice given by personal delivery or courier service shall be effective upon actual receipt. Notice given by mail shall be effective five days after deposit with the United States postal service. Notice given by fax shall be confirmed by appropriate answer back and shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next business day after receipt if received before the recipient's normal business hours. All Notices by fax shall be confirmed promptly after transmission in writing by regular mail or personal delivery. Any Party may change any address to which Notice is to be given to it by giving Notice as provided above of such change of address.

10.6 [RESERVED]

10.7 No Waiver. The rights and remedies of the Parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any Party in exercising any right, power or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power or privilege. To the maximum extent permitted by applicable Law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one Party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other Party; (b) no waiver that may be given by a Party will be applicable except in the specific instance for

which it is given; and (c) no notice to or demand on one Party will be deemed to be a waiver of any obligation of such Party or of the right of the Party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

10.8 Amendments. This Agreement may be amended, supplemented or otherwise modified only by a written agreement executed by the Parties (or their permitted assigns).

10.9 Savings Clause. If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

10.10 Interpretation. The headings of Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All references to "Section" or "Sections" refer to the corresponding Section or Sections of this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the word "including" does not limit the preceding words or terms.

10.11 Multiple Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.12 Sales and Transfer Taxes. Seller and Buyer shall be responsible for and pay 50% of any applicable sales, stamp, transfer, documentary, use, registration, filing and other taxes and fees (including any penalties and interest) that may become due or payable in connection with this Agreement and the transactions contemplated hereby.

10.13 Entire Agreement. This Agreement (including the Exhibits and the Disclosure Schedules attached hereto) constitutes the entire agreement between the Parties and supersedes all prior agreements, correspondence, and understandings, oral and written, between the Parties with respect to the subject matter hereof, including any letters of intent and confidentiality agreements among the Parties, or any agreements, correspondence or understandings between the Parties or any of their affiliates relating to the sale of the Assets or the operation of the Purchased Area.

10.14 Assignability. This Agreement shall not be assigned by Seller without the prior written consent of Buyer. Buyer may assign to an affiliated entity, or an entity that acquires substantially all of its Buyer's assets without Seller consent.

10.15 Employees. Buyer shall have no obligation to employ or to provide benefits to any of the employees of Seller. Buyer shall have no responsibility, liability or obligation, whether to employees, former employees, their beneficiaries or to any other person with respect to, and Seller shall indemnify and hold Buyer harmless with respect to, any employee compensation or any benefit plan, practice, program or arrangement maintained for employees of Seller (including, without limitation, any pension, retirement, bonus, medical, dental or other health plan or life insurance or disability plan).

10.16 Mail. Seller authorizes and empowers Buyer on or after the Closing Date to receive and open all mail received by Buyer relating to the City System or Assets. Seller shall promptly deliver to Buyer any mail or other communication received by them after the Closing Date pertaining to the City System or the Assets and any cash, checks or other instruments of payment in respect of the Assets (including any Post-Signing Connection Fees). Buyer shall deliver promptly to Seller any mail or other communication

received by them after the Closing Date pertaining to the Excluded Assets and any cash, checks or other instruments of payment in respect of the Excluded Assets.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written above.

BUYER:

PALMETTO OF RICHLAND COUNTY LLC

By: Ed Wallace

Name: Ed Wallace

Title: President

SELLER:

CITY OF COLUMBIA, SOUTH CAROLINA

By: SA Gantt

Name: Steven A. Gantt

Title: City Manager

Attachment HW-2

NEW ISSUE

BOOK-ENTRY-ONLY

RATINGS:
Moody's: Aa1
Standard & Poor's: AA
(see "RATINGS")

In the opinion of McNair Law Firm, P.A., Co-Bond Counsel, assuming continued compliance by the City with the provisions of the Internal Revenue Code of 1986, as amended, as described herein, interest on the 2013 Bonds is excludable from gross income for federal income tax purposes under existing laws, regulations, rulings and judicial decisions. Interest on the 2013 Bonds is not an item of tax preference in computing the alternative minimum tax on individuals and corporations. However, interest on the 2013 Bonds is included in adjusted current earnings when calculating the corporate alternative minimum tax on certain corporations. The 2013 Bonds and the interest thereon will also be exempt from all State, county, municipal, school district and other taxes or assessments imposed within the State of South Carolina, except estate, transfer and certain franchise taxes.



\$75,305,000
CITY OF COLUMBIA, SOUTH CAROLINA
WATERWORKS AND SEWER SYSTEM REVENUE BONDS
SERIES 2013

Dated: Delivery Date

Due: February 1, as shown on inside cover

The City of Columbia, South Carolina ("City"), Waterworks and Sewer System Revenue Bonds, Series 2013 ("2013 Bonds"), are issuable in fully-registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), to which payments of principal, redemption premium, if any, and interest on the 2013 Bonds will be made. Individual purchases will be made in book-entry-only form, in denominations of \$5,000 or any integral multiple thereof. So long as Cede & Co., as partnership nominee of DTC, is the registered owner of the 2013 Bonds, references herein to holders or registered owners of the 2013 Bonds means Cede & Co., and shall not mean the beneficial owners of the 2013 Bonds. Interest on the 2013 Bonds shall be payable on each February 1 and August 1 commencing February 1, 2014, until maturity or prior redemption. Principal on the 2013 Bonds will be payable in the years and amounts shown on the inside cover hereof. All capitalized terms used on this cover, and not otherwise defined, are defined herein.

The 2013 Bonds are being issued under the authority of the Constitution and laws of the State, including Title 6, Chapter 17, Code of Laws of South Carolina 1976, as amended, and the General Bond Ordinance No. 93-43, enacted by the City Council, the governing body of the City ("City Council"), on May 21, 1993, as amended and supplemented, including as amended and supplemented particularly by the Tenth Supplemental Ordinance No. 2013-097, enacted by the City Council on September 3, 2013.

The 2013 Bonds are being issued for the purposes of (i) improving and enlarging the Waterworks and Sewer System of the City ("System") (i.e., the 2013 Projects); and (ii) paying the cost of issuance of the 2013 Bonds.

The 2013 Bonds, including the interest thereon, are payable solely from the Net Revenues of the System and are secured by a pledge of and lien on the Net Revenues thereof. **THERE WILL BE NO DEBT SERVICE RESERVE FUND ESTABLISHED FOR OR FUNDED WITH THE PROCEEDS OF THE 2013 BONDS.**

THE 2013 BONDS WILL BE SUBJECT TO OPTIONAL AND MANDATORY REDEMPTION PRIOR TO MATURITY AS DESCRIBED HEREIN.

THE 2013 BONDS DO NOT CONSTITUTE INDEBTEDNESS OF THE CITY WITHIN THE MEANING OF ANY STATE CONSTITUTIONAL PROVISION (OTHER THAN ARTICLE X, SECTION 14, PARAGRAPH 10 OF THE SOUTH CAROLINA CONSTITUTION AUTHORIZING OBLIGATIONS PAYABLE SOLELY FROM SPECIAL SOURCES NOT INVOLVING REVENUES FROM ANY TAX OR LICENSE) OR STATUTORY LIMITATION. THE 2013 BONDS SHALL NOT CONSTITUTE DEBT OF THE CITY, NOR A CHARGE, LIEN OR ENCUMBRANCE, LEGAL OR EQUITABLE, ON ANY PROPERTY OF THE CITY OR ON ANY INCOME, RECEIPTS OR REVENUES THEREOF, OTHER THAN THE NET REVENUES OF THE SYSTEM PLEDGED THERETO. NO RECOURSE SHALL BE HAD FOR THE PAYMENT OF THE 2013 BONDS OR THE INTEREST THEREON AGAINST THE GENERAL FUND OF THE CITY AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY SHALL BE DEEMED TO BE PLEDGED THERETO. THE FULL FAITH, CREDIT AND TAXING POWERS OF THE CITY ARE NOT PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2013 BONDS.

The 2013 Bonds are offered when, as and if issued and delivered by the City, subject to the final approving opinions of McNair Law Firm, P.A., Columbia, South Carolina, and Johnson, Toal & Battiste, P.A., Columbia, South Carolina, Co-Bond Counsel. Certain legal matters will be passed on for the City by the City Attorney, Kenneth E. Gaines, Esquire, and for the Underwriters by their co-counsel, Parker Poe Adams & Bernstein LLP, Columbia, South Carolina, and The Starks Law Firm, P.A., Columbia, South Carolina. Merchant Capital, L.L.C., Columbia, South Carolina, has served as Financial Advisor to the City in connection with the issuance of the 2013 Bonds. It is expected that the 2013 Bonds will be available for delivery through the facilities of DTC, on or about December 18, 2013.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

RAYMOND JAMES

TERMINUS SECURITIES, LLC

Attachment HW-2

with reasonable cause. In February 2011, a 15% rate increase, which is effective through June 2020, went into effect for water service provided to Fort Jackson.

The City's contract with Chapin, which was entered into on June 29, 1988, provides for the acquisition of the entire water system of Chapin and provides for the City to enjoy the exclusive right to furnish water to Chapin for a period of 30 years. Chapin customers are charged the normal Out-of-City rates.

The City's contract with Winnsboro is a bulk water agreement, which was entered into May 1, 2013, and confirms that they pay the City's standard rate.

Waterworks System Rates

Information on rates and fees of the Waterworks System is set forth in "-Water and Sewer Rates and Fees" herein.

Federal and State Requirements

The City currently holds a license from the South Carolina Department of Health and Environmental Control ("DHEC") to operate a water treatment and distribution system. The Waterworks System currently meets all federal and State requirements regarding water quality. See "Environmental Matters – General."

Sanitary Sewer System

The City's Sanitary Sewer System consists of over 1,000 miles of sewer lines ranging in diameter from 4 inches to 60 inches, 55 sewage lift stations and a central treatment facility known as the Metropolitan Wastewater Treatment Plant ("Metro WWTP"). The Metro WWTP, a biological oxidation extended aeration treatment facility located on the Congaree River three miles south of the City, was originally constructed in 1970 and expanded in 1982 to 40 MGD and again in 1998 to 60 MGD. Currently the average daily flow to the Metro WWTP is about 34 MGD. Nearly five percent of the flow to the Metro WWTP is industrial. The City expects that the Metro WWTP, as expanded and upgraded, will be adequate to provide sewage treatment for the Sanitary Sewer System through the year 2060.

The City owns all of the sewer lines, lift stations and treatment facilities of the Sanitary Sewer System. The sewer lines are expected to have at least a 50-75 year useful life, with proper maintenance. The sewage lift stations are being rehabilitated as needed and are on a maintenance schedule, and most stations are expected to have a useful life of at least 15 years at construction or after rehabilitation is completed. Sewer lines are typically installed in easements or in rights-of-way owned by the City, Richland or Lexington County or the State, with new lines being placed in exclusive easements when possible. The City owns in fee simple the land on which the Metro WWTP and many of the sewage lift station sites.

In March 2013, the City sold a portion of the Sanitary Sewer System and the retail wastewater utility service rights to a private utility company ("Private Utility"), relating to approximately 13,000 predominantly residential customers located in northeast Columbia. The sale represented approximately 16% of the City's then-existing sewer accounts. The City will continue treating sewer for these accounts (at pre-determined rates) until the earlier of (1) three years from the sale date and (2) the date the Private Utility can construct necessary infrastructure allowing connection to its treatment plant.

The City maintains an ongoing program of upgrading, rehabilitating, and modernizing of the Sanitary Sewer System, the costs of which are paid from System Revenues and from the proceeds of revenue bonds of the System. See "Capital Expenditures" herein.

Operations

The number of In-City customers of the Sanitary Sewer System grew by approximately 9.76% between 2004 and 2013. The table below shows the number of customers of the Sanitary Sewer System over the past ten Fiscal Years.

Attachment HW-2

Sewer Plant Expansion Fees

The City began charging new customers of the Sanitary Sewer System a sewer plant expansion fee on October 1, 1987. The fee is intended to provide an additional source of moneys for upgrading and expansion of the Metro WWTP. Sanitary Sewer System plant expansion fees generated a total of \$1,845,420 in revenues in Fiscal Year 2013.

Water and Sewer Billing and Collection Policies

New or transferring account fees are charged to customers (new and existing) who request service. Bills are mailed to customers on a periodic basis throughout the month and are payable on receipt. Customers receiving both water and sewer services receive combined bills for these services. Water or sewer service accounts that are two months or more in arrears are terminated for non-payment. Advance notice of 10 days is given prior to such termination action.

Capital Expenditures

The City has expanded and improved the System with proceeds of revenue bonds and Revenues of the System. During Fiscal Years 2009 through 2013, the City expended approximately \$289,573,933 (unaudited) for System expansion and improvement, including approximately \$71,237,960 (unaudited) expended in Fiscal Year 2013. The following table shows the amounts expended from proceeds of revenue bonds and System Revenues for capital improvements to the System, including cash-funded projects that fall outside the City's Capital Improvements Program, undertaken during Fiscal Years 2009 through 2013.

Capital Improvements Undertaken

<u>Fiscal Year Ended June 30</u>	<u>Capital Improvements Financed with Bond Proceeds</u>	<u>Capital Improvements Financed with System Revenues</u>	<u>Total Capital Improvements</u>
2009	\$31,332,126	\$11,141,657	\$42,473,783
2010	22,857,279	0	22,857,278
2011	79,501,885	0	79,501,885
2012	73,503,027	0	73,503,027
2013 [†]	<u>71,237,960</u>	<u>0</u>	<u>71,237,960</u>
TOTAL	\$278,432,277	\$11,141,657	\$289,573,933

[†]Unaudited.

To take advantage of historically low interest rates and to finance capital expansions and improvements identified in the System's then current Capital Improvements Program, the City undertook an aggressive program of annual debt issuances on behalf of the System, beginning in Fiscal Year 2010. Because of the combined effect of (i) the City having sufficient bond proceeds available to fund annual System expansions and improvements from Fiscal Year 2010 through Fiscal Year 2013 and (ii) the City's preference to spend available bond proceeds for System expansions and improvements before using cash on hand, the System fund balance was able to grow from approximately \$101 million in Fiscal Year 2010 to approximately \$165 million (unaudited) in Fiscal Year 2013.

Capital Improvements Program

Future capital expenditures to expand and improve the System are managed by the City through a rolling five-year Capital Improvements Program, which is approved annually by City Council as part of the adoption of the City's Budget Ordinance. The current Capital Improvements Program covers the Fiscal Years ending June 30, 2014, through June 30, 2018, and anticipates capital expenditures of approximately \$100,000,000 per year for each of the next five years for total expenditures of approximately \$500,000,000. Sixty percent of the anticipated capital expenditures will be devoted to the Sanitary Sewer System and the remaining 40% will be devoted to the Waterworks System. The expenditures are expected to include engineering, storage tanks, water plant additions, increased sewer capacity, lines, pump stations, easements and land. In addition, expenditures will be targeted to rectify issues identified in the Consent Decree (as defined below).

Attachment HW-2

OFFICIAL STATEMENT

NEW ISSUE

BOOK-ENTRY-ONLY

RATINGS:
Moody's: Aa1
Standard & Poor's: AA
(see "RATINGS")

In the opinion of McNair Law Firm, P.A., Co-Bond Counsel, assuming continued compliance by the City with the provisions of the Internal Revenue Code of 1986, as amended, as described herein, interest on the 2011A Bonds and the 2011B Bonds is excludable from gross income for federal income tax purposes under existing laws, regulations, rulings and judicial decisions. Interest on the 2011A Bonds and the 2011B Bonds is not an item of tax preference in computing the alternative minimum tax on individuals and corporations. However, interest on the 2011A Bonds and the 2011B Bonds is included in adjusted current earnings when calculating the corporate alternative minimum tax on certain corporations. The 2011A Bonds and the 2011B Bonds and the interest thereon will also be exempt from all State, county, municipal, school district and other taxes or assessments imposed within the State of South Carolina, except estate, transfer and certain franchise taxes.

\$100,000,000

CITY OF COLUMBIA, SOUTH CAROLINA
WATERWORKS AND SEWER SYSTEM REVENUE BONDS
SERIES 2011A

\$27,265,000

CITY OF COLUMBIA, SOUTH CAROLINA
WATERWORKS AND SEWER SYSTEM REFUNDING REVENUE BONDS
SERIES 2011B



Dated: Delivery Date

Due: February 1, as shown on inside cover

The City of Columbia, South Carolina ("City"), Waterworks and Sewer System Revenue Bonds, Series 2011A ("2011A Bonds") and the City Waterworks and Sewer System Refunding Revenue Bonds, Series 2011B ("2011B Bonds"), are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), to which payments of principal, redemption premium, if any, and interest on the 2011A Bonds and the 2011B Bonds will be made. Individual purchases will be made in book-entry-only form, in denominations of \$5,000 or any integral multiple thereof. So long as Cede & Co., as partnership nominee of DTC, is the registered owner of the 2011A Bonds and the 2011B Bonds, references herein to holders or registered owners of 2011A Bonds and the 2011B Bonds means Cede & Co., and shall not mean the beneficial owners of the 2011A Bonds and the 2011B Bonds. Interest on the 2011A Bonds and the 2011B Bonds shall be payable on each February 1 and August 1 commencing February 1, 2012, until maturity or prior redemption. Principal on the 2011A Bonds and the 2011B Bonds will be payable in the years and amounts shown on the inside cover hereof. All capitalized terms used on this cover, and not otherwise defined, are defined herein.

The 2011A Bonds and the 2011B Bonds are being issued under the authority of the Constitution and laws of the State, including Title 6, Chapter 17, Code of Laws of South Carolina 1976, as amended, and the General Bond Ordinance No. 93-4, enacted by the City Council, the governing body of the City ("City Council"), on May 21, 1993, as amended and supplemented, including as supplemented particularly by the Eighth Supplemental Ordinance No. 2011-068, enacted by the City Council on September 20, 2011.

The 2011A Bonds are being issued for the purposes of (i) improving and enlarging the Waterworks and Sewer System of the City ("System") (i.e., the 2011 Projects); and (ii) paying the cost of issuance of the 2011A Bonds. The 2011B Bonds are being issued for the purposes of (i) refunding \$30,345,000 outstanding principal amount of the City's \$41,500,000 original principal amount Waterworks and Sewer System Refunding Revenue Bonds, Series 2001; and (ii) paying the cost of issuance of the 2011B Bonds.

The 2011A Bonds and the 2011B Bonds, including the interest thereon, are payable solely from the Net Revenues of the System and are secured by a pledge of and lien upon the Net Revenues thereof. **THERE WILL BE NO DEBT SERVICE RESERVE FUND ESTABLISHED FOR OR FUNDED WITH THE PROCEEDS OF THE 2011A BONDS OR THE 2011B BONDS.**

THE 2011A BONDS WILL BE SUBJECT TO OPTIONAL AND MANDATORY REDEMPTION PRIOR TO MATURITY AS DESCRIBED HEREIN. THE 2011B BONDS ARE NOT SUBJECT TO REDEMPTION PRIOR TO MATURITY.

THE 2011A BONDS AND THE 2011B BONDS DO NOT CONSTITUTE INDEBTEDNESS OF THE CITY WITHIN THE MEANING OF ANY STATE CONSTITUTIONAL PROVISION (OTHER THAN ARTICLE X, SECTION 14, PARAGRAPH 10 OF THE SOUTH CAROLINA CONSTITUTION AUTHORIZING OBLIGATIONS PAYABLE SOLELY FROM SPECIAL SOURCES NOT INVOLVING REVENUES FROM ANY TAX OR LICENSE) OR STATUTORY LIMITATION. THE 2011A BONDS AND THE 2011B BONDS SHALL NOT CONSTITUTE DEBT OF THE CITY, NOR A CHARGE, LIEN OR ENCUMBRANCE, LEGAL OR EQUITABLE, UPON ANY PROPERTY OF THE CITY OR ON ANY INCOME, RECEIPTS OR REVENUES THEREOF, OTHER THAN THE NET REVENUES OF THE SYSTEM PLEDGED THERETO. NO RECOURSE SHALL BE HAD FOR THE PAYMENT OF THE 2011A BONDS AND THE 2011B BONDS OR THE INTEREST THEREON AGAINST THE GENERAL FUND OF THE CITY AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY SHALL BE DEEMED TO BE PLEDGED THERETO. THE FULL FAITH, CREDIT AND TAXING POWERS OF THE CITY ARE NOT PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2011A BONDS OR THE 2011B BONDS.

The 2011A Bonds and the 2011B Bonds are offered when, as and if issued and delivered by the City, subject to the final approving opinions of McNair Law Firm, P.A., Columbia, South Carolina, and Johnson, Toal & Battiste, P.A., Columbia, South Carolina, Co-Bond Counsel. Certain legal matters will be passed upon for the City by its counsel, Kenneth E. Gaines, Esquire, and for the Underwriters by their co-counsel, Parker Poe Adams & Bernstein LLP, Columbia, South Carolina, and The Starks Law Firm, P.A., Columbia, South Carolina. Merchant Capital, L.L.C., Columbia, South Carolina, has served as Financial Advisor to the City in connection with the issuance of the 2011A Bonds and the 2011B Bonds. It is expected that the 2011A Bonds and the 2011B Bonds will be available for delivery through the facilities of DTC, on or about December 8, 2011.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MORGAN KEEGAN

TERMINUS SECURITIES, LLC

Attachment HW-2

75-year useful life. Existing pipes are typically installed in rights-of-way owned by the City, Richland or Lexington County or the State, with new lines being placed in exclusive easements. The City owns in fee simple the land on which the Columbia Plant and Lake Murray Plant are located and most of the land on which pump stations and storage tanks are located.

The City maintains an ongoing program of upgrading, modernization and providing rehabilitation of the Waterworks System, the costs of which are paid from System Revenues and from the proceeds of revenue bonds of the System. See “Capital Expenditures” herein.

Operations

The total number of customers of the Waterworks System has grown by more than 27% over the past ten fiscal years (for which information is available). The major part of the growth has occurred as a result of new out-of-City customers being added. Information on revenues is set forth for both the Waterworks System and Sanitary Sewer System on a combined basis in “FINANCIAL FACTORS.” The table below shows the number of water customers during the past ten Fiscal Years (for which information is available):

Number of Billed Customers on Waterworks System

<u>Fiscal Year</u>	<u>In-City</u>	<u>Out-of-City</u>	<u>Total</u>
2001	32,167	72,589	105,756
2002	34,178	74,496	108,674
2003	34,897	78,002	112,899
2004	35,436	79,375	114,811
2005	36,943	83,450	120,394
2006	37,396	86,784	124,180
2007	38,442	88,755	127,196
2008	39,332	92,897	132,229
2009	39,799	93,850	133,649
2010	39,671	94,803	134,474

Special Contracts

The City has entered into contracts with Fort Jackson and the Town of Chapin (“Chapin”) to provide water service. The contract with Fort Jackson, which was entered into as of March 25, 1987, provides that the City will be paid at rates subject to renegotiation upon the request of either party with reasonable cause. A 16% rate increase went into effect for water service provided to Fort Jackson on January 1, 1994. A 16% rate increase went into effect for water service provided to Fort Jackson in July 2003. The City is presently negotiating a rate increase for water service provided to Fort Jackson.

The City’s contract with Chapin, which was entered into on June 29, 1988, provided for the acquisition of the entire water system of Chapin and provided for the City to enjoy the exclusive right to furnish water to Chapin for a period of 30 years. Chapin customers are charged the normal out-of-City rates.

Waterworks System Rates

Information on rates and fees of the Waterworks System is set forth in “-Water and Sewer Rates and Fees” herein.

Federal and State Requirements

The City currently holds a license from the South Carolina Department of Health and Environmental Control (“DHEC”) to operate a water treatment and distribution system. The Waterworks System currently meets all federal and State requirements regarding water quality. See “Environmental Matters – General.”

Sanitary Sewer System

The City’s Sanitary Sewer System consists of over 1,100 miles of sewer lines ranging in diameter from 4 inches to 60 inches, approximately 70 sewage lift stations and a central treatment facility known as the Metropolitan Wastewater Treatment Plant (“Metro WWTP”). The Metro WWTP, a biological oxidation extended aeration treatment facility located on the Congaree River three miles south of the City, was originally constructed in 1970 and expanded in 1982 to

Attachment HW-2

40 MGD and again in 1998 to 60 MGD. Currently the average daily flow to the Metro WWTP is about 40 MGD. Approximately five percent of the flow to the Metro WWTP is industrial. The City expects that the Metro WWTP, as expanded and upgraded, will be adequate to provide sewage treatment for the Sanitary Sewer System through the year 2015.

The City owns all of the sewer lines, lift stations and treatment facilities of the Sanitary Sewer System. The sewer lines are expected to have at least a 50-75 year useful life, with proper maintenance. The sewage lift stations are continually being rehabilitated and most stations are expected to have a useful life of at least 15 years at construction or after rehabilitation is completed. Existing sewer lines are typically installed in rights-of-way owned by the City, Richland or Lexington County or the State, with new lines being placed in exclusive easements when possible. The City owns in fee simple the land on which the Metro WWTP and all sewage lift stations are located.

The City maintains an ongoing program of upgrading, rehabilitating, and modernization of the Sanitary Sewer System, the costs of which are paid from System Revenues and from the proceeds of revenue bonds of the System. See "Capital Expenditures" herein.

Operations

The total number of customers of the Sanitary Sewer System has grown by more than 19% over the past ten fiscal years (for which information is available). The major part of the growth has occurred as a result of new out-of-City customers being added. Information on revenues is set forth for both the Sanitary Sewer System and the Waterworks System on a combined basis in "FINANCIAL FACTORS." The table below shows the number of customers of the Sanitary Sewer System over the past ten Fiscal Years (for which information is available).

Number of Billed Customers on Sanitary Sewer System

<u>Fiscal Year</u>	<u>In-City</u>	<u>Out-of-City</u>	<u>Total</u>
2001	28,624	29,244	57,868
2002	29,230	29,829	59,059
2003	29,744	30,817	60,561
2004	30,235	31,188	61,423
2005	31,114	32,137	63,253
2006	31,110	32,932	64,042
2007	31,820	34,028	65,848
2008	32,280	35,506	67,786
2009	32,503	36,004	68,507
2010	32,500	36,722	69,222

Special Contracts

The City entered into a contract with the City of West Columbia in 1975 and with Fort Jackson in 1967. The parties agreed to contribute financially to the construction, operation, maintenance, supervision and repair of certain components of the Sanitary Sewer System. The City assumed responsibility for the operation of these components, in return for which the City is paid a base monthly charge plus various other charges based on gallons of sewage discharged.

Sanitary Sewer System Rates

Information on rates and fees of the Sanitary Sewer System is set forth in "Water and Sewer Rates and Fees" herein. The most recent rate increase became effective July 1, 2011.

Federal and State Requirements

The Sanitary Sewer System currently holds a license from DHEC to operate a sewage treatment system. The Sanitary Sewer System currently meets all federal and State requirements in regard to sewage treatment. See "Environmental Matters – General."

[REMAINDER OF PAGE INTENTIONALLY BLANK]